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Commentary

What the Tax Working Group did and didn't do

Summary

The Tax Working Group (TWG) has reported back. The reactions to the proposal for taxing the income from capital gains have ranged from the sublime to the ridiculous and from "it doesn't go nearly far enough" to "this is the end of the kiwi way of life". They have exposed a class society where one group of people seemingly believe that almost everyone owns at least one investment property and a bach (no wonder they didn't believe there is a housing crisis) while the experience of most is that buying even one house is increasingly unaffordable.

A crucial function of the tax system is to reduce inequality. In the September *Bulletin* I showed how weak New Zealand's tax and transfer (income support) system was at doing this. Taxing the income from capital gains as proposed by the TWG would be a significantly inequality-reducing move. However it won't be enough to revitalise the inequality-reducing power of the income tax system, nor raise sufficient funds to restore our public services and welfare system. That would require higher top income tax rates which have been ruled out by the Government. If a tax on the income from capital gains is defeated, it seems that high inequality and insufficient revenue will remain for many years a permanent, yet avoidable, blight on New Zealand society.

The TWG report covered not only taxing the income from capital gains but many other matters some of which the commentary describes briefly: Environmental taxes, business taxes, savings, personal income tax, understanding high wealth and income, and stopping cheating.

The main case for taxing income from capital gains is fairness. It reduces inequality and ensures this kind of income is treated equally with wages, salaries, interest and other types of income that are already taxed. It is unfair that someone make a $50,000 profit on the sale of rental property and not be taxed while some earning $50,000 from wages will be. If the share of the nation's income going to wage and salary earners continues to fall, whether due to automation, globalisation or unfair employment law, then the importance of taxing capital is only going to increase.

Almost every other OECD country taxes income from capital gains, and it is uncontentious. As a Canadian professor told Radio New Zealand, we would be "joining the modern world, tax-wise."

The commentary responds to some of the assertions being made about the proposed tax. Should capital gains be taxed at the same rate as other income? Yes, it always has been, and otherwise leaves loopholes and unfairness. Will it hurt investment? It should move some investment from inflating property prices to more productive purposes. It is unlikely to hurt other investment. What will it do to rents and house prices? The TWG concluded that it would lead to small upward pressure on rents and downward pressure on house prices. These impacts were likely to be small. The family home exemption, complexity, avoidance by the rich, effect on small business and holiday homes are also discussed.

This is longer than usual, but you can dip in and out of it. Hopefully you will find at least some of it useful.

Unless you've been totally disconnected from the news for the last week you'll have noticed that the final report of the Tax Working Group (TWG) has been released (I'll just refer to it as 'the Report' and page numbers refer to Volume I of the report unless otherwise stated). The reactions to the proposal for taxing the income from capital gains have ranged from the sublime to the ridiculous and from "it doesn't go nearly far enough" to "this is the end of the kiwi way of life". They have exposed a class society where one group of people seemingly believe that almost everyone owns at least one investment property and a bach (no wonder they didn't believe there is a housing crisis) while the experience of most is that buying even one house is increasingly unaffordable.

Declaration of interest: I was a member of the Tax Working Group. Membership ended the moment the final report was handed to the Ministers on 1 February. This is not a "Tax Working Group member tells all!" exposé, sorry. Instead I reflect on what the TWG did and did not do, and then outline some of its findings and recommendations, focusing on ones that have received less coverage, ending with a response to the main concerns and myths that have emerged about taxing income from capital gains.

What the Group did and did not do about high inequality

The primary function of the tax system is to raise revenue. Gathering revenue is vital for a future-focused society in order to run our public services such as education, health and housing, build schools, hospitals, communication and transport systems, help people when they lose jobs or suffer other misfortune, and address poverty and inequality. It is increasingly important in responding to society-wide and global developments such as advancing technology and climate change which no individual can do on his or her own. Tax is the way we as a society share our resources to look after each other and our common needs.

A second, crucial, function of the tax system is redistribution: reducing inequality. In the September *Bulletin* I showed how weak New Zealand's tax and transfer (income support) system was at doing this. While being in the most unequal third of the OECD[1] we have among the weakest tax systems and weakest transfer systems in the OECD – both about half as effective in reducing income inequality as the most effective. They have become steadily less inequality-reducing almost year by year since the 1980s. That is counting only personal income taxes. Add in GST and our tax system is barely progressive. The inequality-reducing job is left to inadequate benefits and Working for Families tax credits.

Our level of income inequality dipped slightly in the 2000s with Working for Families but last year was at about the same level as it was at the end of the 1990s and by some measures higher. New Zealand is a good place to be rich. The top personal tax rate is among the lowest in the OECD, and, unlike most other countries other than Australia, taxes paid by the local companies they own or have shares in are credited back to them when they receive dividends. Income from capital gains is untaxed.

Income support could deal with poverty if it were sufficient (it is not), but taxation is one of the few ways, along with stronger collective bargaining, to reduce high income inequality.

Taxing the income from capital gains as proposed by the TWG would be a significantly progressive move. It is difficult to estimate exactly how much it would reduce income inequality because we don't know how much income it brings in, but it is likely to be considerable. Ownership of the assets that would be subject to the tax (exempting the family home, domestic assets like cars, paintings and furniture, and bank

[1] Measured by the Gini coefficient of equivalised disposable household income.

deposits) is highly concentrated: 10% of households hold 70% of them by value. Ownership of financial assets other than cash, bank deposits and pension funds (such as shares) is even more concentrated. However it won't be enough to restore the inequality-reducing power of the tax system.

What else could be done to restore the inequality-reducing power of the tax system? Prevented from increasing income tax rates, the TWG suggested tax threshold changes to raise low and middle after-tax incomes, but they would reduce inequality very little (reducing the Gini coefficient by just 0.5%):

> Overall, the personal tax changes discussed in this report are likely to have a minor impact on income inequality. A material reduction in income inequality through the personal tax system would require broader income tax changes, including an increase in the top personal marginal rate. Such a change is beyond the scope of the Group's Terms of Reference. (p.91)

Not only did the Government prevent the TWG from doing more, but it has seemingly ruled out doing more in future. In the Ministers' response to the final report they said, "We also set out some clear bottom lines. In particular, the family home, increases to income tax and GST, and an inheritance tax are off limits and this remains the case." It has painted itself into a corner, at least for its next term.

Another option, taxing an annual 'deemed return' on net assets as income, is likely to have raised similar opposition as taxing income from capital gains from those paying it and appears to be politically unpalatable because the owner may not have sufficient cash to pay the tax. It is really only practicable for easily valued assets such as housing and publicly listed shares. Land, wealth and inheritance taxes should be considered, but seem to be off the political table.

> The TWG's investigation of the 'deemed return' method revealed (p.59) that rental property is hugely undertaxed. More revenue would be raised by taxing a deemed return of just 1.7% – roughly the Treasury bond rate – than is currently collected. On the face of it, property investors would receive more from putting their money in a bank term deposit than the revenue they get from rents. Clearly they are making most of their money from untaxed capital gains.

If the proposed tax on income from capital gains were in place now, it would be raising an average of approximately \$3.4 billion per year.[1] Currently it would be raising more because house prices are still rising rapidly in most regions, but that will vary substantially from year to year. A further \$3.4 billion would make useful inroads into reducing poverty and restoring housing, health, and education, though still not enough. If it is introduced in a tax-neutral package like the Government asked the TWG for, even that revenue would not be available. Whatever the case, it will take several years to reach its full capacity.

If it is defeated, it seems that high inequality and insufficient revenue will remain for many years a permanent, yet avoidable, blight on New Zealand society. Even if it succeeds, more will need to be done.

Some less reported recommendations

Environmental taxes

There is long term thinking in the Report's Chapter 4 on Environmental and ecological outcomes. It begins from the urgent environmental problems facing both New Zealand and the world. While the chapter considers the role of tax, it does not necessarily favour tax as the best policy, and when it is useful, it will usually need to be accompanied by other measures such as education and regulation. The TWG's main contribution is to propose a framework that can be used to decide whether a tax is appropriate (p.41).

[1] The TWG secretariat estimated it would in the long run raise revenue at an average rate of 1.2% of GDP or 4.2% of revenue.

The case is stronger when environmentally damaging behaviours respond relatively strongly to a tax; when it has revenue-raising potential; and when there are a range of possible ways to reduce the undesirable behaviour. The damaging activity must be directly or indirectly measurable, there must be time to develop the tax (otherwise regulation might be quicker), and the scale of the problem must be large enough to make a tax worthwhile. The design should take into account Māori rights and interests, distributional impacts (many environmental taxes are regressive, costing low income people proportionately more), it should reflect the full cost of the damages caused (externalities), should vary locally if there is local variation in impacts, international linkages including international obligations and agreements should be considered, it should be integrated with other policy, and future generations and other species should be considered.

The chapter considers several existing and possible taxes on these criteria: Greenhouse Gases, Water pollution, Water abstraction, Solid waste and Road transport. It notes the significant underpricing of carbon by the Emissions Trading Scheme (around $20/tonne compared to between $75 and $200 per tonne required to achieve our international commitments), and estimates that if agriculture's free allocation were removed an additional $2.1 billion could be raised per year. It suggests studies be conducted into the incidence of these taxes to better understand who will incur their costs and to design appropriate mitigation measures. In the long run it suggests "a natural capital enhancement tax" which is a modified form of land tax "based on the idea of an environmental footprint tax". It would require much better tools than available at present to measure the state of the land.

Business taxes

The TWG ruled out changing the company tax rate which was reduced from 33% to 30% in 2008/09 and again to 28% in 2010. It was not possible to detect any improvement in investment, GDP growth or productivity performance as a result of the reductions. Since 2010, capital intensity (capital used per hour worked) has flat lined rather than increased. On the other hand, the reductions opened a gap with the top personal income tax rate (33%) which wealthy individuals use to reduce their effective tax rate. One tax expert commented that the company tax rate is the effective top tax rate for the rich. It was revealing to learn that officials have a great deal of trouble predicting the economic effects of tax changes. Models previously used had not proved reliable. Learning: all claims about the effect of tax cuts (or increases) on growth should be treated with great scepticism and should be checked against reality.

New but preliminary modelling for the TWG[1], confirming results of a similar though more sophisticated Australian study, indicated that a 5 percentage point reduction in the company tax rate from 28% to 23% would increase Net National Product (like GDP but excluding gains to overseas residents and the effect of depreciation) by just 0.1%. Even that is likely to be on the high side given the model's assumptions. For example, it did not take into account excess profits made by overseas owners of companies which dominate a sector and which IRD believe are important. Much of the benefit of a cut would go to overseas residents. A 5 percentage point tax rate rise would have a similar but opposite outcome.

Though New Zealand's headline rate of company tax, at 28%, is high in the OECD, only Australia has the 'imputation' system that New Zealand runs where all company tax is credited back to local shareholders when dividends are paid. That means the effective company tax rate for local shareholders is their top personal tax rate – for most shareholders that is 33%. Other countries double tax dividends so effective

[1] See https://taxworkinggroup.govt.nz/resources/twg-bg-3985430-company-tax-rate-issues-review-of-secretariat-modelling ; https://taxworkinggroup.govt.nz/resources/twg-bg-3951003-company-tax-rate-issues-further-information

tax rates are much higher than New Zealand's and our effective tax rate on company income is among the lowest in the OECD. The picture is more complicated for overseas shareholders.

However the TWG did recommend a range of tax measures that would reduce effective company tax rates. "Black-hole" expenditure (p.74) is research and development that fails to produce a commercial product. Allowing it to be deducted for tax purposes recognises that there is always a risk of failure in such development, and so encourages research and development. Careful measures will be needed to ensure it is not abused. A more controversial and expensive recommendation (estimated cost: $1.46 billion per year) was to reinstate deductions for commercial building depreciation at a 1% rate. In 2010 this was removed based on research finding that such buildings do not depreciate; views have now changed. The reasoning is that buildings must be maintained and without a depreciation allowance, new building would be discouraged. That hasn't happened in practice: media reports and official statistics show a booming commercial building sector with significant overseas interest. The 2010 decision was a quid pro quo for the reduction in the company tax rate, so the current Government could fairly say that it would only allow this depreciation if company income tax rates went up again. A lesser cost with stronger rationale is to allow it only for multi-unit residential buildings (such as apartment blocks: $150 million annual cost) and for seismic strengthening ($70 million annual cost). All are subject to affordability and the revenue from taxing income from capital gains. A long list of reductions in compliance costs benefiting small business was recommended in preference to a lower small business tax rate which would increase complexity and is largely irrelevant given imputation of company taxes (described above).

The TWG also supported the Government pursuing a digital services tax on companies like Facebook and Google, "if a critical mass of other countries move in that direction and it is reasonably certain that New Zealand's export industries will not be materially impacted by any retaliatory measures." New Zealand's room to move is severely constrained by international trade and double-taxation agreements, and the TWG recommended that "The Government must also ensure – to the extent possible – that New Zealand's double tax agreements and trade agreements do not unduly restrict our taxation options in these matters." It supported continuing work in the OECD for an international agreement on taxing these companies (by far the best way to go), but there is a risk it never completes its work because of pressures, particularly from the US, whose giant corporations benefit from the current situation.

Savings

There were two reasons to look at the taxation of savings. One was that the Government had asked the TWG to consider how to encourage savings. The other was that taxing income from capital gains would reduce the return on savings. However there was neither the time nor the expertise nor the mandate for a full review of the taxation of savings. The recommendations (p.81) for consideration are aimed squarely at low and middle income earners and would substantially more than compensate them for any increased tax. Firstly the tax that employers pay on their contributions to their employees' superannuation (ESCT) could be zeroed for KiwiSaver members earning up to $48,000 but phased out so that employers of those earning $70,000 or more would continue to pay the full tax. Secondly, A KiwiSaver member on parental leave could receive the maximum Member Tax Credit, even if they did not make the full $1,024 of contributions, to assist them to continue saving. Thirdly, the Member Tax Credit could be increased from $0.50 per $1 of contribution to $0.75 per $1 of contribution (with the cap unchanged at $1,024). Finally, people on the top tax rate of 33% get a 5 percentage point concession when they save in PIE (such as KiwiSaver): their tax rate is 28% for income in those funds. The TWG proposed that KiwiSaver members on 10.5% and 17.5% rates should also get a 5 percentage point concession.

The parental leave concession can be seen as the first step towards a policy the CTU has suggested: for government contributions when a KiwiSaver member has a pause in earning capacity such as to care for children or dependent relatives, or is accessing a benefit. While the TWG proposal is modest and misses parents who are not wage earners when they have a child, it is a useful foundation for a wider scheme.

Related to retirement savings, there is also a recommendation to make the New Zealand Superannuation ('Cullen') Fund tax-exempt (p.81). It is unusual internationally among such sovereign funds in being taxed, and misses out on some tax concessions in other countries as a result. This would in general be fiscally neutral: rather than collect the taxes and pay them back in contributions to the Fund, it would only contribute the net amount. It does lose some flexibility in the level of its contributions.

Personal income tax

This has been well publicised in the media. Recall that the TWG was not allowed to raise tax rates, only reduce them or change thresholds. Briefly, the recommendations are to not reduce the top tax rate, which is already low by international standards, but to make changes that benefit low to middle income earners (recognising that very low income households are best assisted through welfare transfers). The options provided are various increases in the bottom threshold of the tax rates where the 10.5% rate currently ends and the 17.5% rate begins. This increases the income that is taxed at the lower rate of 10.5% and, depending on how much the threshold is raised, reduces tax on all tax payers above the threshold with a larger proportional increase to most low and middle income earners. This was preferred to a zero-tax band because many in the lowest income band are in relatively high income households (46% are in households with above median incomes). The options given – many variations would be possible – would provide net income gains of up to $420, $595 or $1,120 a year depending on the option and the person's income. The last depended on an increase in the 17.5% tax rate which was outside the TWG's terms of reference but would ensure much more of the gain went to low and middle income earners. It was also recommended that beneficiaries should be given equivalent increases as a matter of fairness, and that Working for Family abatement rates should be reduced if the tax rate was increased.

Understanding high wealth and income

Ministers asked the TWG how information on high wealth and capital income could be improved. It recommended four actions: bolster household income and wealth surveys so they provided better data on the wealthy ("oversampling"); include a question on wealth in the census; request Inland Revenue to regularly repeat its analysis of the tax paid by high wealth individuals[1]; and commission research on using a variety of data sources on capital income, including administrative data, to estimate the wealth of individuals. It also recommended greatly expanded statistical information about the tax system. Information available here is far behind that available in Australia for example.

Stopping cheating

Research published while the TWG was working estimated that the self-employed under-report their income by 20% on average. [2] The TWG was anxious to stop the "shadow economy" from undermining the tax system and people's confidence in it. Options include more sophisticated data matching, requiring tax to be paid, rather like PAYE, on payments to contractors, and increased reporting requirements for labour

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[1] See https://taxworkinggroup.govt.nz/resources/information-release-high-wealth-individuals-wealth-accumulation-review.

[2] Cabral, A. C. G., & Gemmell, N. (2018). Estimating Self-Employment Income-Gaps from Register and Survey Data: Evidence for New Zealand (Working Paper No. 07/2018). Wellington, New Zealand: Victoria University of Wellington. Retrieved from https://chairinpublicfinance.createsend1.com/t/d-l-biydjx-l-q/

income. Tax collection is plagued by similar problems to enforcement of employment and health and safety law: companies disappear and their owners set up a new one to avoid fines. There was support for "a lowering of the corporate veil" in such cases, including departure prohibition orders in cases of deliberate or persistent non-payment of GST and PAYE by a company whose directors (or their associates) are the main economic owners of the business, and making them personally liable for payment if offending persists. The stark difference in enforcement standards between offending taxpayers and beneficiaries was a concern, and a single Crown debt collection agency, with (as far as possible) consistent rules for treatment of debtors, was recommended. More enforcement is needed where wealthy company owners use them to avoid or evade tax (such as personal use of company funds). It recommended that the Government explore options to allow a wider gap between the company and top personal tax rates without opening more opportunities for such rorts. It also recommended that Inland Revenue ensure it maintained the technical and investigatory skills of its staff, which have in recent years been depleted.

Taxing the income from capital gains: "joining the modern world, tax-wise"

Almost every other OECD country taxes the income from capital gains, and it is uncontentious. As a Canadian professor told Radio New Zealand, we would be "joining the modern world, tax-wise."[1]

I've outlined part of the main case for taxing the income from capital gains: fairness. It reduces inequality. But there is another aspect of its fairness: gains from rising asset prices are income just like dividends, interest, wages and salaries, yet they are untaxed. The rise in price of a house or shares leaves the owner with greater wealth at the end of the day, just as does any other form of income that is not spent. Yet $50,000 earned from wages and salaries is taxed to the last cent while $50,000 income received by reselling a rental property at a higher price is untaxed. This is doubly unfair because income from capital gains is so unevenly distributed. This subsidy given to a particular type of income overwhelmingly benefits the wealthy. Most households would be virtually untouched by this tax, particularly if the KiwiSaver and personal tax measures were implemented.

There is a third aspect to the unfairness. As mentioned, some of the wealthiest individuals avoid paying existing taxes by effectively converting income from their private companies into untaxed capital gains.

There is also a "Future of Work" aspect. If the share of the nation's income going to wage and salary earners continues to fall, whether due to automation, globalisation or unfair employment law, then the importance of taxing capital is only going to increase. Otherwise taxes on workers – whose incomes are under already pressure from these trends – will intensify.

An important feature to remember about the tax is that it is in general levied only when an asset is sold and the taxpayer has money to pay it: on 'realisation' of the asset. There is an exception for investment funds, including KiwiSaver. Fund managers told the TWG that the only way it could be administered would be on accrual: that is, on the rise in value each year. That is easier to manage in a fund and the recommendations of the TWG more than compensate for that for most savers.

There are many assertions being made about the proposed tax. Here are responses to some of them.

Should capital gains be taxed at the same rate as other income? We already tax income from capital gains at the same rate as other income – such as when an asset is bought with the intention of reselling it,

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[1] "Capital gains tax: 'New Zealand is joining the modern world' – academic", 27 February 2019, https://www.radionz.co.nz/news/political/383455/capital-gains-tax-new-zealand-is-joining-the-modern-world-academic

or the 'bright line' tax brought in by National for houses sold within 2 years (now extended to within 5 years). There is no reason to tax this kind of income differently. Taxing at a lower rate would leave loopholes that are used to avoid other taxes and leave most of the unfairness. US billionaire Warren Buffet, who advocates higher taxes on the rich, complained that he was probably paying a lower tax rate than his secretary because most of his income comes from capital gains, taxed at only 20 percent, while hers came from wages. It would also complicate the tax system.

Will the tax hurt investment? We currently subsidise over-investment in assets like land whose capital gains provide a tax-free return. That just inflates their prices rather than adding to our productive capacity. This is a drag on productivity and encourages rocketing property prices. Taxing all income the same encourages investment in other, more productive assets (called allocative efficiency). It has been recommended by the OECD, IMF and Treasury for this reason. Some are concerned that it would make other investment less attractive because some also makes capital gains. I am unconvinced. Firstly, as I described under business taxes, governments reduced taxes on capital income in the 1980s and over the last decade, yet our productivity and investment performance has deteriorated over that period. We can conclude that the impact of taxation is very small. Secondly, the higher taxes will mainly be paid by investments with a high capital gains component – most often a heavy loading in land or financial assets. It is those we want to rebalance away from. Most OECD countries tax income from capital gains and that has not stopped them having superior productivity to New Zealand.

Isn't it unfair that a $400,000 rental property gets taxed but a $10 million family home in Parnell doesn't? It is unfair, but much less so compared to a $400,000 family home. Leaving the family home untaxed is the compromise that every country which taxes income from capital gains has made because otherwise it is not politically feasible; it is the overall impact that must be considered. In many ways it would be fairer (and better economically) to tax capital gains from family homes the same way – perhaps by allowing the tax to be deferred when moving and buying another home and only charging it when a home is sold and cashed up. This is called "rollover" and the tax is on the difference between the price received from the final sale and the price paid for the owner's first house in the chain. The TWG recognised the problem but could not go outside its terms of reference. It did suggest putting a cap on the exemption (e.g. $5 million) for family homes, but considered it also fell outside its terms of reference.

Is a capital gains tax complex? Yes, it is complex, but let's put that in perspective. Despite claims that our current tax system is simple, it requires about 4,500 pages of mind-twisting legislation, plus regulations, court findings, IRD determinations, interpretations, rulings and double taxation treaties. Most other OECD countries manage it. Compliance costs for firms were surveyed by an Australian expert. The tax on capital gains relatively infrequently impacts any one taxpayer. He found (p.72) that in Australia it took only 2% of tax compliance costs – an average 4 hours a year – for SMEs (up to AU$50m turnover), and much less for smaller businesses. Income tax and GST were far more time intensive.

Won't the rich just avoid it? Of course they will try. Tax experts will already be considering their offerings. But IRD is highly capable of combating it and we should ensure they are able to continue to do so. Avoidance and evasion is nothing new: the complexity of our current 'simple' system (see above) has arisen largely in reaction to it, and it is in part because of the *absence* of a tax on the income from capital gains. If we allowed avoidance and evasion to intimidate us, we would have no taxes.

What will be the effect on small business? The TWG proposed several features that mean that small business is unlikely to be greatly affected, unless they are renting out property or trading in shares (passive assets). For firms with turnover of less than $5 million it proposed there would be rollover for active assets that they sell to replace them. For example a farmer would be able to sell a farm and buy a larger one. A mechanic could sell a building used as a workshop to buy a larger one. Tax on the income from the capital gain would only be paid if the asset were sold and not replaced, in which case tax would be paid on the difference between the sale price and the cost of the original asset. If the business is sold at retirement, up to $500,000 capital gain would be treated like a KiwiSaver investment and be taxed at its concessionary rate. If the business was passed on to a successor on the owner's death, then tax would also be rolled over. Taxation may be deferred for decades or even generations in many cases. Even for property investors, the TWG suggested cancelling the proposed ring-fencing of losses.

Don't small business owners work long hours for little reward? Some do; others get very handsome reward for it.[1] In any case, so do many wage and salary earners, but all their income is taxed. Parents working several cleaning jobs, hardly seeing each other and too tired to spend quality time with their children. Forestry workers working long dangerous hours in conditions like running a marathon all day. Mental health nurses in understaffed critical care units working double shifts at risk of assault.

Will it be the end of 'the Kiwi bach'? No, sadly that dream has already ended for most people, many of whom can't even afford to buy one home, let alone two. We are seeing the growth of mansion-like 'holiday homes' among the wealthy. There is also a thin dividing line (or none at all) between a holiday home and an investment property. Often they are rented out, perhaps through an online service like AirBnb or BookaBach. In a revealing statement[2], Bachcare founder, Leslie Preston bemoaned the tax, not primarily because of the loss of the 'Kiwi bach' but because it could have a "detrimental impact on the amount of accommodation available for domestic and international visitors". It is hard to see why they should be exempted. Like other assets, they are untaxed until they are sold.

What will it do to rents and house prices? The TWG concluded (p.63) that it would lead to small upward pressure on rents and downward pressure on house prices. These impacts were likely to be small. There are not enough houses and so landlords already have the power to raise rents to the maximum possible short of losing tenants: we hear news of this almost daily. There is little room for them to raise rents further – if there was they would already have done so. House prices are affected by many much more powerful factors than tax: inadequate supply, particularly of affordable houses, and demand from a rapidly growing population with high net immigration. Taxing income from capital gains is unlikely to be a silver bullet to bring down prices, but will be pushing in the right direction. If some property investors do sell up, the houses don't disappear: they will be bought either by another investor or for the buyer's home. It does provide some hope: New Zealand's house prices rose faster than most other countries in recent years. Judging from the impact of tighter loan-to-value ratios on investors, which quickly cooled prices in Auckland, it was investors who were driving the market. Investor pressure may be reduced and investment diverted to more productive uses.

Bill Rosenberg

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[1] See Rosenberg, B. (2017). *Shrinking portions to low and middle-income earners: Inequality in Wages & Self-Employment 1998-2015.* Available at http://www.union.org.nz/wage-and-salary-earners-below-the-average-wage-lost-out-on-income-growth/inequality-wages-self-employment-1998-2015/

[2] Holiday home sector at risk if CGT includes baches", Bachcare, 22 February 2019, http://www.scoop.co.nz/stories/PO1902/S00223/holiday-home-sector-at-risk-if-cgt-includes-baches.htm

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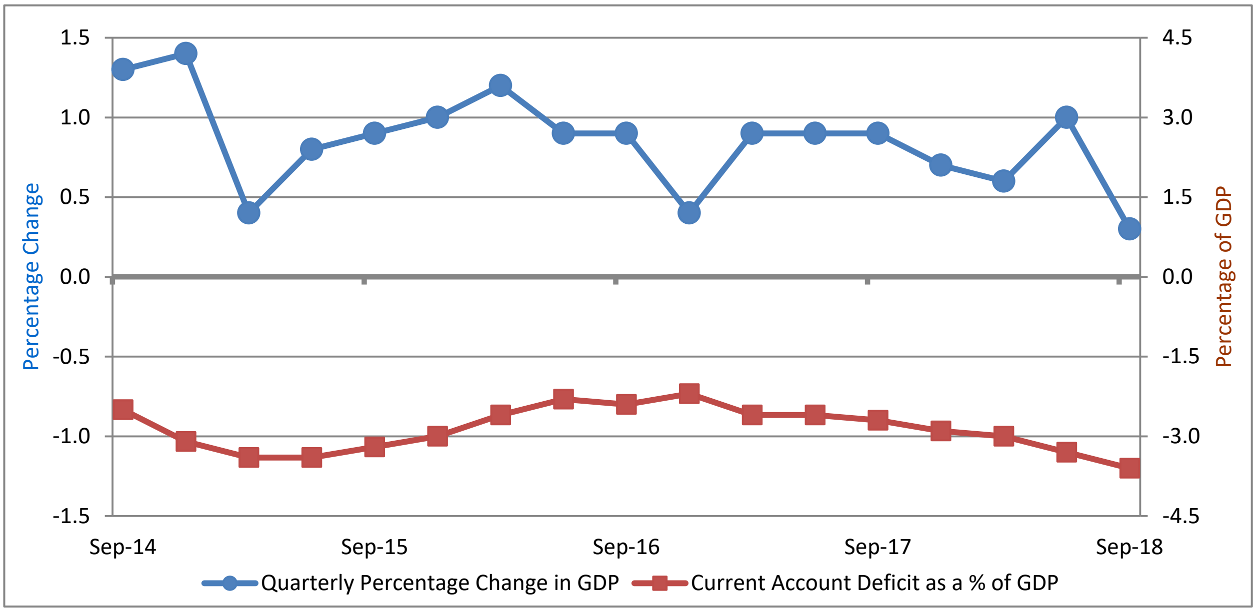
Forecast

- This NZIER consensus forecast was released on 10 December 2018.

Annual Percentage Change (March Year)	2018-19	2019-20	2020-21	2021-22
GDP	2.9	3.0	2.9	2.6
CPI	1.9	1.9	2.0	2.0
Private Sector average hourly wage	3.0	3.3	3.4	3.1
Employment	2.3	1.7	1.7	1.5
Unemployment rate (% of labour force)	4.2	4.1	4.1	4.2

Economy



- Growth in New Zealand's measured economy in the three months to September 2018 was much weaker than the previous quarter, with Gross Domestic Product rising by 0.3 percent, down from 1.0 percent in the previous quarter, though it is unlikely this is a new trend. Average growth for the year ended September 2018 was 3.0 percent (and 2.6 percent compared to the same quarter last year).

Growth in GDP per person continues to be weak with a rapidly growing population (though population growth is slowing): GDP growth per person was static at 0.0 percent in the September quarter, down from a weak 0.5 percent in the June quarter, but up 0.7 percent over the same quarter in the previous year. GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.4 percent a year. Since 2011 it has averaged 1.5 percent per year. Real gross national disposable income per capita, which takes into account the income that goes to overseas investors, transfers (such as insurance claims) and the change in prices for our exports and imports, rose 0.5 percent over the quarter and rose 1.2 percent over the year to June.

- I estimate that labour productivity, measured by production per hour worked in the economy, fell 0.7 percent in the year to September compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It rose 0.3% in the quarter, seasonally adjusted.
- Business investment fell by 2.1 percent compared to the previous quarter, dominated by a fall in investment in Other Construction, which fell 4.2 percent following two falls and a rise in the three previous quarters, with a fall also in investment in Plant, machinery and equipment, which fell 1.6 percent following a fall and two rises in the previous three quarters. However Transport equipment investment rose 6.6% following strong rises in two of the previous three quarters, and one fall. Compared to the same quarter the previous year, growth was closer to the overall GDP average at 2.2 percent, driven by Transport equipment (up 15.1 percent) offset by a fall in Other construction of 7.1 percent. Investment in housing rose 1.3 percent in the quarter following two rises and a fall in three previous three quarters. It grew 2.7 percent compared to the same quarter a year before. Household consumption grew 1.0 percent in the September quarter in real terms, the same as the previous quarter after a 0.2 percent increase in March and increases of around 1.0 percent in quarters before that. It rose 3.3 percent over the same quarter in the previous year. Inflation in the economy as a whole, shown by the GDP deflator (a price index for expenditure on the economy's production, reflecting largely the revenue employers are getting for their products) rose 0.9 percent compared to the same quarter the previous year, and 0.5 percent in the most recent quarter.
- By industry, the largest contributors to growth in the latest quarter were Mining (up 12.4 percent), Wholesale Trade (up 1.1 percent), Rental, hiring, and real estate services (up 0.7 percent), Professional scientific, technical, administration and support rose 0.6 percent and Health care and social assistance rose 0.9 percent. There were contractions in Manufacturing (down 0.8 percent), Electricity, gas, water and waste services (down 2.3 percent), Construction (down 0.8 percent), Transport, postal and warehousing (down 0.1 percent) and Information media and telecommunications (down 0.9 percent). Year-on-year, the biggest rises were in Transport, postal and warehousing (up 5.3 percent), Wholesale trade (up 5.0 percent), Professional, scientific, technical, administrative and support services (up 4.5 percent), and Retail trade and accommodation (4.2 percent); none contracted.
- New Zealand recorded a Current Account deficit of $2.6 billion in seasonally adjusted terms for the September 2018 quarter, following a $2.7 billion deficit for the previous quarter. There was a deficit in goods trade ($1.0 billion, seasonally adjusted) following a $1.3 billion deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $74 million in goods and services (virtually unchanged from the $75 million surplus in the previous

quarter) including a $1.1 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) was almost static on a deficit of $2.6 billion (seasonal adjustment not available). For the year to September 2018, the current account deficit was $10.6 billion or 3.6 percent of GDP, up from the $9.6 billion deficit in the year to June (3.3 percent of GDP). The deficit on investment income was $10.6 billion for the year.

- The country's Net International Liabilities were $156.2 billion at the end of September 2018, up from a revised $154.5 billion at the end of the previous quarter and $154.3 billion a year before. The September liabilities were equivalent to 53.7 percent of GDP, little different from the previous quarter (53.6 percent) and down from 55.6 percent a year before. Net international liabilities would take 1.91 years of goods and services exports to pay off, down from 2.07 years a year before. However gross liabilities at $425.3 billion would take 5.20 years of goods and services exports to pay off. The rise in net liabilities over the quarter was due to a net $2.0 billion valuation increase offset by a $0.3 billion net outflow of investment. Without the valuation changes, the net liabilities would have been $154.2 billion. Statistics New Zealand comments: "New Zealand investment abroad was a $3.6 billion net inflow in the latest quarter. This was due to a decrease in reserve assets ($2.3 billion), mostly in the form of short-term debt securities. Foreign investment in New Zealand was a $3.9 billion net outflow in the September 2018 quarter – driven by settlement of financial derivative liabilities ($2.2 billion) and withdrawal of portfolio investment ($1.5 billion)." New Zealand's international debt was $296.4 billion (other than shares; equivalent to 101.9 percent of GDP), of which 31.0 percent is due within 12 months, compared to $143.4 billion in financial assets (49.3 percent of GDP), leaving a net debt of $153.0 billion (52.6 percent of GDP). Of the net debt, $2.6 billion was owed by the government including the Reserve Bank, and $116.5 billion by the banks (40.1 percent of GDP), which owed $158.3 billion gross.

- ★ Overseas Merchandise Trade for the month of January 2019 saw exports of goods rise in value by 3.0 percent from the same month last year while imports rose 7.7 percent. This contributed to a trade deficit for the month of $914 million or 20.7 percent of exports, following a series of high deficits in four of the previous five months. There was a trade deficit for the year of $6.4 billion or 11.1 percent of exports. In seasonally adjusted terms, exports fell 7.8 percent or $393 million over the month (compared to a 3.5 percent rise the previous month) with rises led by Dairy products (up 5.2 percent or $62 million), Fruit (up 24.9 percent or $36 million), Logs, wood and wood articles (up 9.5 percent or $39 million), Wine (up 26.5 percent or $36 million), and Mechanical machinery and equipment (up 9.5 percent or $14 million), offset by falls led by Meat (down 8.8 percent or $54 million), Crude oil (down 41.5 percent or $30 million, not seasonally adjusted), and Aluminium and aluminium articles (down 11.1 percent or $11 million, not seasonally adjusted). Seasonally adjusted imports rose 0.4 percent or $22 million over the previous month, leaving a trade deficit of $416 million following a $791million deficit in the previous month. The rising imports were led by Textiles (up 29.3 percent or $58 million), Optical, medical, and measuring equipment (up 16.7 percent or $25 million), and Plastics and plastic articles (up 4.2 percent or $200 million), offset by falls led by Petroleum and products (down 6.1 percent or $47 million, not seasonally adjusted). In the year to January, 24.4 percent of New Zealand's exports went to China, 15.6 percent to Australia, 9.6 percent to the US, and 61.4 percent went to the top six countries buying New Zealand exports. This compares with 22.5 percent going to China in the previous year, and 60.3 percent going to the top six destinations. Over the same period, 19.8 percent of New Zealand's imports came from China (compared to 19.2 percent in the previous year), 11.4 percent from Australia, 10.1 percent from the US, and 58.0 percent from the top six countries selling to New Zealand, compared to 57.8 percent a year before. There were trade surpluses with China ($1.3 billion) and Australia ($1.7 billion) but deficits with most other major trading partners.

★ The Retail Trade Survey for the three months to December 2018 showed retail sales rose 3.5 percent by volume and 4.5 percent by value compared with the same quarter a year ago. They rose 1.7 percent by volume and 1.8 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Pharmaceutical and other store-based retailing (up 10.2 percent), Food and beverage services (up 5.0 percent), Accommodation (up 3.8 percent), Electrical and electronic goods (up 3.6 percent), Clothing, footwear and accessories (up 3.1 percent), and Non-store and commission-based retailing (including online retailing: up 3.1 percent). Sales fell in four categories: Recreational goods (down 2.2 percent), Department stores (down 1.9 percent), Hardware, building and garden supplies (down 1.9 percent), and Furniture, floor coverings, houseware, textiles (down 0.4 percent). By far the largest category, Supermarket and grocery stores, rose 1.7 percent.

★ The Performance of Manufacturing Index for January 2019 was 53.1, a fall from 54.8 in the previous month. The employment sub-index was at 52.2, the same as in the previous month.

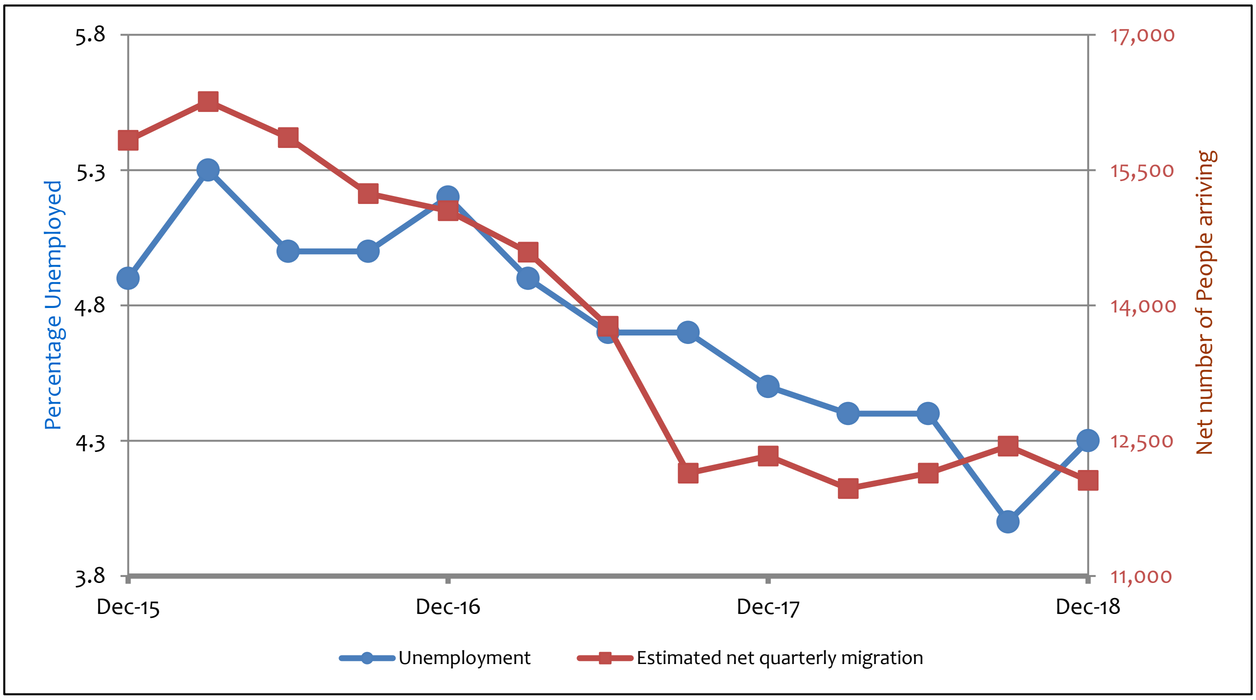
★ The Performance of Services Index for January 2019 was 56.3, up from 53.2 the previous month. The employment sub-index was 52.9, up from 50.3 the previous month.

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

★ On 13 February 2019, the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. The Governor maintained the Bank's previous expectation that the OCR will remain at this level "through 2019 and into 2020." The Bank's view is still that "Employment is around its maximum sustainable level. However, core consumer price inflation remains below our 2 percent target mid-point, necessitating continued supportive monetary policy." It has some concerns about the international situation and its possible impact on New Zealand: "Trading-partner growth is expected to further moderate in 2019 and global commodity prices have already softened, reducing the tailwind that New Zealand economic activity has benefited from. The risk of a sharper downturn in trading-partner growth has also heightened over recent months." Nevertheless, employment growth and Government spending on infrastructure and housing will support the economy with a pick up in GDP growth over 2019. "As capacity pressures build", the Bank expects CPI to rise to 2 percent. The Governor's statement concluded, as it did last time: "We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation." In its accompanying Monetary Policy Statement, the Bank commented on the employment situation (which it is putting a much greater emphasis on reflecting its new mandate to pursue "maximum sustainable employment"). It defines maximum sustainable employment as "the highest utilisation of labour resources that can be maintained without creating an acceleration in inflation". It considers that by a number of indicators, "employment is near its maximum sustainable level". As a counter=example, it says the underutilisation rate, a broader measure of unemployment than the official measure, is near its post-2004 average (it was much lower prior to 2009 so the average reflects the much higher underutilisation since then). But it says evidence for employment being above its maximum sustainable level lies in the unemployment rate being at its lowest rate since the Global Financial Crisis, even though it is still a percentage point above its 2007 minimum. It expects it to fall slightly further. The next OCR announcement will be on 27 March 2019.

★ According to REINZ, over the year to January the national median house price rose $30,000 or 5.8 percent to $550,000 and REINZ's house price index rose 3.1 percent. (The house price index adjusts for the type of house, such as its size and land area, and seasonal price patterns.) Over the month, the median price rose 2.9 percent seasonally adjusted while the house price index rose 0.1 percent. In Auckland over the year the median price was down $20,000 or 2.4 percent to $800,000 while the house price index fell 2.1 percent. Over the month, Auckland's median price was down 2.4 percent seasonally adjusted, and the house price index fell 0.8 percent. Excluding Auckland, over the year the national median price rose $43,300 to $473,300 or 10.1 percent while the house price index rose 8.1 percent. Over the month the median price excluding Auckland was up 2.3 percent seasonally adjusted, and the house price index rose 0.9 percent. There were record median prices in Waikato (up 12.6 percent over the year to $550,000), Manawatu/Whanganui (up 21.7 percent to $348,000), Marlborough (up 16.3 percent to $477,000), Otago (up 6.4 percent to $475,475) and Southland (up 15.6 percent to $277,500). Median prices rose over the year in all of REINZ's 14 regions except Auckland (down 2.4 percent) and Canterbury (down 0.7 percent), the fastest rise being 21.7 percent in Manawatu/Whanganui with Gisborne, up 21.1 percent, not far behind. Seasonally adjusted median prices fell over the month in Auckland (down 2.4 percent), Bay of Plenty (down 1.1 percent), Hawke's Bay (down 2.1 percent), Taranaki (down 1.0 percent), Canterbury (down 1.7 percent), and West Coast (down 20.1 percent) but rose in all other regions. Sales fell in seven of the 14 regions over the month, seasonally adjusted, while over the year, sales fell in 8 of the regions, averaging a fall of 1.6 percent.

Employment



The December 2018 Household Labour Force Survey, from which the employment statistics below are derived, was affected by adjustments that make many of the changes in this quarter "unrealistic" according to Statistics New Zealand. The adjustments were due to additional questions asked with for the 2018 Survey of Working Life (last run in 2012). Statistics New Zealand advises as follows:

> Some seasonally adjusted employed and "Not In the Labour Force" (NILF) series … (eg the number of people employed, broken down by age; underemployment; and youth not in employment, education, and training series)… may show unrealistic movements this quarter. We recommend users exercise caution when considering the latest data and focus on longer-term trends. In addition, all actual employed and NILF series, including all age, ethnicity, industry, occupation, and regional breakdowns, should be used with caution.

For further details see https://www.stats.govt.nz/information-releases/labour-market-statistics-december-2018-quarter which also provides a link to a full list of affected series in HLFS data collection in DataInfo+.

The change to migration collection methods which has led to significant differences in estimates of permanent and long term migration (see below) are not yet reflected in these employment statistics. It is expected to be a year before they will be, and at that time may lead to further revisions.

★ According to the Household Labour Force Survey (HLFS) the seasonally adjusted **unemployment** rate in the December 2018 quarter rose to 4.3 percent or 120,000 people, compared to a revised 4.0 percent three months before (110,000 people). If it were the 3.3 percent it was in December 2007, 28,000 more people would have jobs. The seasonally adjusted female unemployment rate rose to 4.2 percent from 4.0 percent three months before, lower than for men (4.4 percent) whose unemployment rate rose from 3.9 percent. Māori unemployment fell from 9.0 percent a year before to 8.2 percent in December 2018, while Pacific people's unemployment rose from 7.7 percent to 8.5 percent over the year. Compared to OECD unemployment rates, New Zealand fell from 9th to 14th equal lowest (out of 35 countries). However New Zealand's remained the third-highest employment rate for 15-64 year olds at 77.6 percent.

★ **Youth unemployment** for 15-19 year olds was 21.9 percent in December 2018, up from 14.5 percent three months before, and from 20.5 percent a year before. (These and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and for Pacific Peoples are not; small differences may not be statistically significant. *Take particular note of the warning in the box above.)* For Māori 15-19 year olds in December 2018, the unemployment rate was 26.7 percent, up from 24.9 percent a year before. For 15-19 year old Pacific Peoples it was 36.1 percent, down from 32.5 percent a year before. For 20-24 year olds, youth unemployment was 8.5 percent, up from 6.4 percent three months before, and from 8.3 percent a year before. For Māori 20-24 year olds the unemployment rate was 8.9 percent, unchanged from 8.9 percent a year before. For 20-24 year old Pacific Peoples it was 11.1 percent, down from 11.9 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 11.4 percent, up from 7.6 percent three months before and up from 8.5 percent a year before. For Māori 15-19 year olds the rate was 18.7 percent, up from 12.4 percent a year before and for Pacific Peoples it was 14.5 percent, up from 12.1 percent a year before. For 20-24 year olds the NEET rate was 16.5 percent, up from 12.5 percent three months before and from 14.3 percent a year before. For Māori 20-24 year olds the NEET rate was 24.6 percent, up from 21.5 percent a year before, and for Pacific Peoples it was 22.4 percent, up from 21.9 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (19.4 percent) than those not in education (10.5 percent). There were 95,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, up from 69,000 three months before, and from 78,000 a year before.

★ By **region**, in December 2018, in the North Island, Manawatu/Whanganui had the worst regional unemployment rate at 6.0 percent, up from 5.7 percent a year before, and Northland was next at 5.5 percent unemployment compared to 5.6 percent a year before. All other North Island regions had unemployment rates at or under 5 percent, with Waikato the lowest at 3.4 percent (down from 4.9 percent a year before) and all but Auckland (4.3 percent, up from 4.1 percent) and Wellington (4.5 percent, up from 3.7 percent) with lower rates than a year before. All South Island regions had unemployment below 5 percent with average unemployment in the South being 3.9 percent compared to 4.5 percent in the North. In Tasman/Nelson/Marlborough/ West Coast unemployment was 4.4 percent, up from 3.5 percent a year before, in Canterbury it was 3.8 percent, down from 4.0 percent a year before, in Otago it was 3.6 percent, down from 4.5 percent a year before, and in Southland 4.2 percent, up from 3.7 percent a year before.

★ There were 32,500 unemployed people in December 2018 who had been **out of work for more than 6 months** compared to 36,700 a year before. This is 27.0 percent of the unemployed compared to 30.3 percent a year before, but is still at a much higher level than the mid-2000s. Those out of work for more than a year are 10.5 percent of the unemployed compared to 13.5 percent a year before.

After rising until 2016, the proportion of long-term unemployed appears to have peaked and is moving downward.

★ The unemployed were not the only people looking for work: "**underutilisation**" includes the officially unemployed as above, people looking for work who are not immediately available or have not looked for work sufficiently actively to be classed as officially unemployed, plus people in part time work who want more hours ("underemployed"). In the December 2018 quarter there were a total of 351,000 people looking for work classed as "underutilised", or 12.1 percent of the labour force extended to include these people, in seasonally adjusted terms. Of them, 119,000 were underemployed, 120,000 were officially unemployed, and 112,000 were additional jobless people looking for work. The 12.1 percent underutilisation rate is up on the previous quarter (seasonally adjusted 11.4 percent) and unchanged from 12.1 percent a year before. It is higher for women at 14.5 percent than for men (10.0 percent).

★ The number recorded as **employed** rose by just 2,000 over the three months to December 2018 (seasonally adjusted). It rose by 24,500 over the year. The employment rate fell to 67.8 percent over the three months from 68.2 percent. It was 63.0 percent for women and 72.9 percent for men. The participation rate (the proportion of the working age population – those aged 15 years and over – either in jobs or officially unemployed) was almost unchanged at 70.9 percent compared to 71.0 percent three months before.

★ **By industry**, the actual fall in employment of 3,900 in the three months to the December 2018 quarter (not seasonally adjusted) was made up of both gains and losses. The largest gains were of 7,500 in Transport, postal, and warehousing, and 3,500 in Retail trade, and accommodation, and food services. The largest losses were 16,300 in Health care and social assistance, 8,100 in Education and training, 7,100 in Manufacturing, 3,800 in Wholesale trade, and 2,000 in Construction. Over the year, the biggest contributors to the 24,500 additional jobs were 11,900 in Transport, postal, and warehousing, 11,800 in Arts, recreation and other services, 10,200 in Retail trade, and accommodation, and food services, 6,700 in Public administration and safety, and 6,000 in Health care and social assistance. The largest losses were 14,700 in Agriculture, forestry and fishing, 13,100 in Construction, 11,100 in Manufacturing, 10,400 in Wholesale trade, and 6,500 in Education and training.

★ In the December 2018 quarter, total **union membership** was estimated at 407,300, a 1.0 percent fall from 411,500 in the previous quarter but up 2.6 percent from 397,000 a year before. The membership is 18.8 percent of employees compared to 19.1 percent three months before and 18.7 percent a year before. Women make up 58.7 percent of the membership compared to being 49.4 percent of all employees. As a result, the proportion of female employees who are in unions is higher than for males: 22.4 percent compared to 15.4 percent. The increase in numbers was greater for females (up 4.1 percent over the year) than males (up 0.5 percent) so the pay equity settlement is a strong factor (see the industry breakdown below), but not the only one. The membership changes were not evenly spread across age groups: the membership of 15-24 year olds fell 9 percent in the year and fell 3 percent in the quarter, 25-34 year olds rose 18 percent in the year and 4 percent in the quarter, 35-44 year olds rose 12 percent in the year and 0 percent in the quarter, 45-54 year olds fell 13 percent in the year and 5 percent in the quarter, 55-64 year olds rose 2 percent in the year but fell 2 percent in the quarter, and 65+ year olds rose 11 percent in the year but fell 1 percent in the quarter. The union membership growth mainly came from Public Administration and Safety, which increased 9,900 or 20 percent over the year. Health Care and Social Assistance increased 900 or 1 percent while Manufacturing fell by 6,400 or 13 percent over the year. There was a mixture of rises and falls in other industries, but they are unlikely to be statistically meaningful. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends.

★ In the December 2018 quarter, total **collective employment agreement** coverage was estimated at 413,800 employees, which makes 19.1 percent of employees who said their employment agreement was a collective compared to 19.0 percent three months before and 18.4 percent (389,800) a year before. An estimated 69.3 percent (1,500,900) said they were on an individual agreement compared to 69.1 percent three months before and 67.8 percent a year before, and 5.5 percent or 118,300 said they had no agreement (which is illegal), compared to 5.6 percent three months before and 6.6 percent a year before. A further 6.0 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 16.1 percent for men and 22.2 percent for women. All age groups except 45-54 year olds rose in membership of collective agreements over the year, though some fell during the quarter. Those aged 15-24 rose 8 percent in the year and 9 percent in the quarter, 25-34 years rose 21 percent in the year and 1 percent in the quarter, 35-44 year olds rose 10 percent in the year and 2 percent in the quarter, 45-54 year olds fell 8 percent in the year and fell 3 percent in the quarter, 55-64 year olds rose 5 percent in the year but fell 0 percent in the quarter, and members aged 65+ rose 15 percent in the year and 1 percent in the quarter. Density rose for all but the 45-54 year old age group over the year. By industry, collective membership grew over the year by 9,400 or 20 percent in Public Administration and Safety. Education grew 2,500 or 3 percent, Health Care and Social Assistance, 3,400 or 4 percent, Manufacturing fell by 5,000 or 11 percent, and most other industries had increases (though they are unlikely to be statistically significant).

★ By **employment relationship**, in the December 2018 quarter, 89.7 percent of employees (1,972,200) reported they were permanent, 5.4 percent casual (116,700), 2.5 percent fixed term (53,400), 1.2 percent seasonal (26,900), and 0.4 percent employed through a "temporary agency" (9,600). The proportion reporting they were permanent was down from 91.5 percent (1,974,400) three months before and from 89.8 percent (1,906,500) a year before. Women were slightly less likely to be permanent employees: 88.9 percent of women were permanent compared to 90.5 percent of men. Instead, women were more likely to be casual (6.2 percent of them compared to 4.6 percent of men) or fixed term (2.9 percent of women compared to 2.0 percent of men). However more men were in seasonal work than women – 1.7 percent of men compared to 0.8 percent of women. Of the temp agency employees, 4,500 were men and 5,000 women. Employment relationships may have seasonal variations, so we should be cautious about seeing trends in quarterly comparisons. In addition, small differences may not be statistically significant. However, in the two years this data has been available the number and proportion of fixed term employees measured by this survey has fallen, starting in June 2016 with 63,600 and in December 2018 down to 53,800 though there was a sharp upturn in the last quarter. The number of Temporary Agency employees has increased in the same period from 6,600 to 9,600, but this has been a bumpy road so it is too early to say there is a trend.

★ By **duration of employment (job tenure)**, in the December 2018 quarter, 24.1 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 33.4

percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 16.6 percent had been in their job for at least five but less than ten years, and 25.0 percent had been in their jobs for 10 years or more. Women appeared to be somewhat more likely to have been in their jobs for a shorter time than men. For example, 26.7 percent of men had been in their jobs for more than 10 years, but only 23.0 percent of women. Age is a significant factor as would be expected: 55.8 percent of people aged 15 to 24 had been in their jobs for less than a year, and 30.2 percent of 25-34 year olds, but only 14.5 percent of 45-54 year olds and 10.8 percent of 55-64 year olds. Small differences may not be statistically significant.

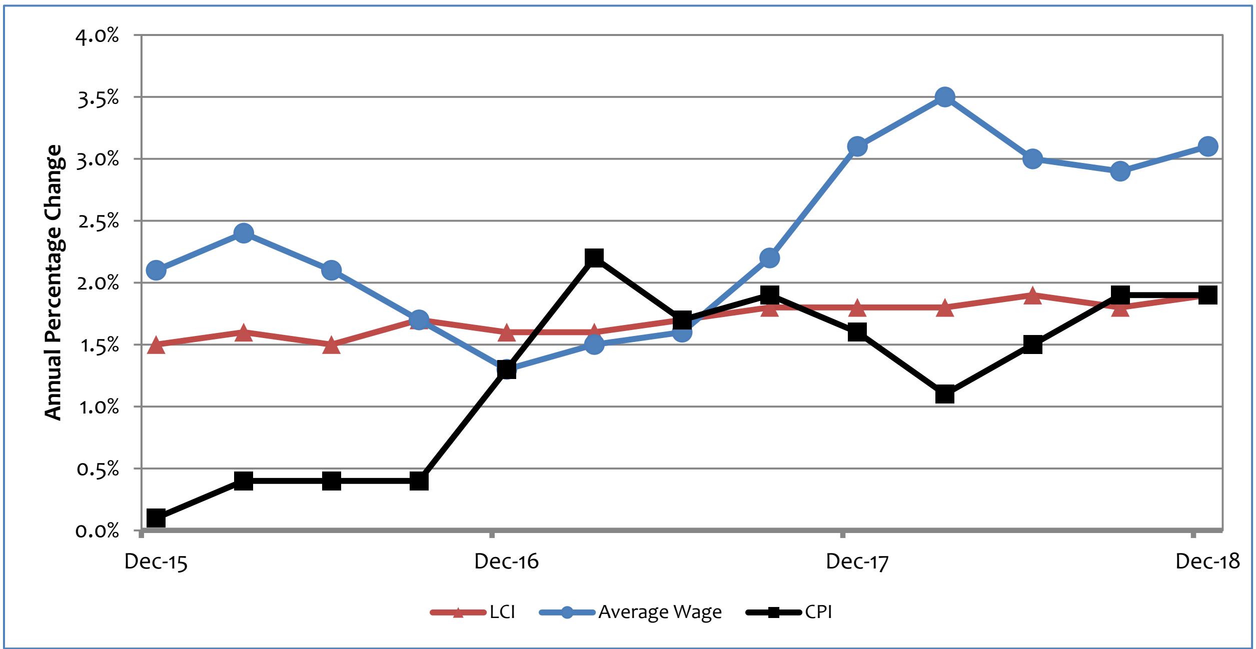
- The Ministry of Social Development reports that at the end of December 2018 there were 134,048 working age people on the Jobseeker benefit, 11,007 more than a year before and 4,405 more than three months before. At that time, 74,107 were classified as 'Work Ready', and 59,941 were classified as 'Health Condition or Disability'. A total of 299,345 were on 'main' benefits, 9,557 more than a year before, with decreases in those on Sole Parent Support benefits (down 808), Supported Living Payments (down 335) and Other Main Benefits (down 307) partially counteracting the increase in Jobseeker benefits. There were 15,030 more on main benefits than three months earlier, mainly because of the seasonal rise in "Jobseeker Support Student Hardship" benefits, which rose to 8,934 at the end of December (similar to the 8,940 at the same time last year), but also boosted by an additional 4,405 on Jobseeker benefits. Of the 35,710 benefits cancelled during the three months to December, 16,604 or 46.5 percent of the people obtained work, 15.3 percent transferred to another benefit and 1.6 percent became full time students. A further 2,209 (6.2 percent) left on their 52 week reapplication or annual review. A total of 8,536 suffered sanctions (down 42.2 percent on a year before), the majority (7,334) on a Jobseeker benefit. Of the people sanctioned, 44.7 percent were Māori, though only 36.4 percent of working-age benefit recipients were Māori.

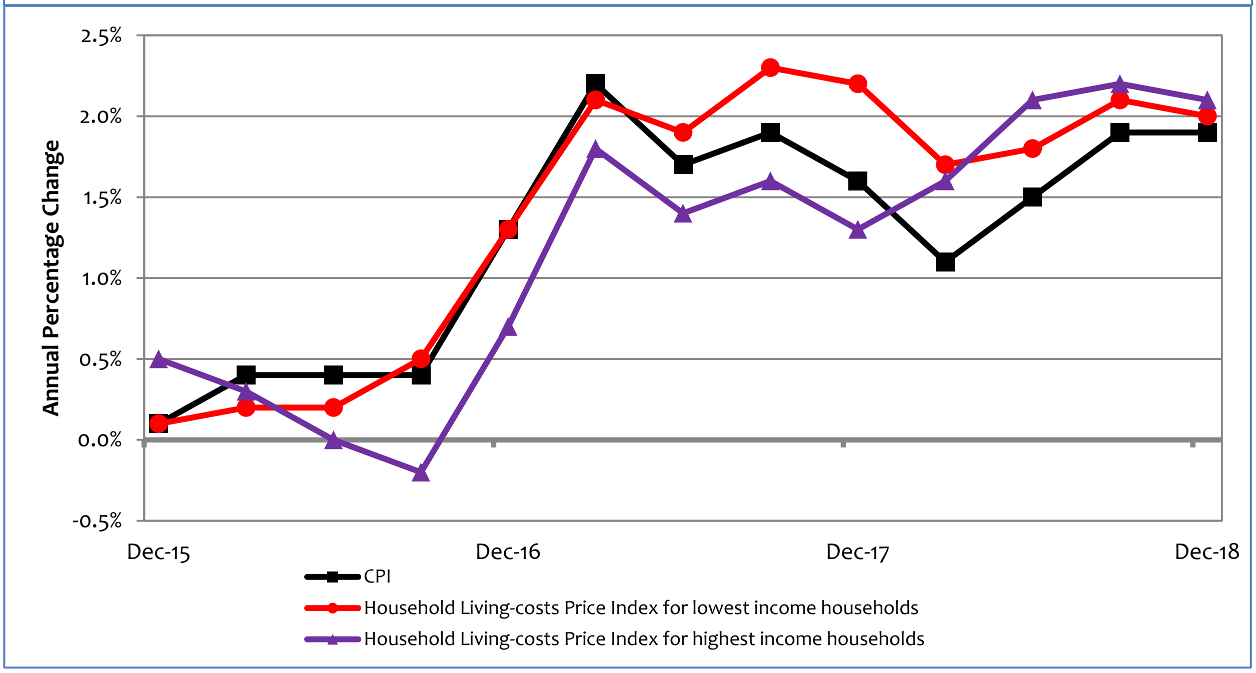
★ International Migration

> As from November 2018, permanent and long term migration is being estimated in a significantly different way by Statistics New Zealand. Previously it was based on intentions shown on arrival and departure cards filled in as people crossed our borders. Now they are based on observed behaviour: they are classed as permanent arrivals or departures if they stay in New Zealand (or abroad, respectively) for at least 12 of the next 16 months. Recent data is therefore provisional for 17 months. Net arrivals (that is, arrivals less departures) calculated by this method are sometimes higher, sometimes lower than under the "intentions based" method, but it appears that both arrivals and departures are higher under the new methodology. Differences between numbers collected under the old and new method are therefore not meaningful in showing changes in migration movements. For example, the old method estimated an actual net gain of 61,751 migrants in the year to October 2018, but the new method provisionally estimates net immigration of 45,208 for the same period – over 16,500 fewer. Some previously available data is not yet available under the new methodology. These revisions will affect population estimates, and eventually other statistics such as employment and productivity.

There were a provisionally estimated 13,690 permanent and long-term arrivals to New Zealand in December 2018 and 8,620 departures in seasonally adjusted terms, a net gain of 5,080 which was significantly higher than the (revised) 3,310 estimated for the previous month. There was a seasonally adjusted net loss of 880 New Zealand citizens, compared to a loss of 920 the previous month, and a net gain of 5,960 other citizens, compared to 4,230 the month before. There was an estimated actual net gain of 48,278 migrants in the year to December, down from 52,651 in the year to December 2017. In December, 8.6 percent of the arrivals had residence visas, 6.8 percent student visas, 14.3 percent work visas, and 26.4 percent visitors. A further 43.4 percent were New Zealand or Australian citizens.

★ Job Vacancies Online for the three months to December 2018 showed the seasonally adjusted number of job vacancies rose by 2.2 percent in the quarter and rose 7.2 percent over the same quarter a year previously. All the following are seasonally adjusted, though it should be borne in mind that many jobs are still filled by word of mouth, social networks and through recruitment agencies rather than the job advertisements surveyed for these statistics. Over the quarter, highly skilled vacancies rose 2.4 percent while semi-skilled vacancies fell 0.9 percent and unskilled vacancies rose 6.5 percent, while over the year, highly skilled vacancies rose 10.5 percent while semi-skilled vacancies fell 0.9 percent and unskilled vacancies rose 12.2 percent. Over the quarter, vacancies in Auckland were up 0.9 percent, Bay of Plenty 5.3 percent, Canterbury 1.0 percent, Gisborne/Hawke's Bay 6.9 percent, Marlborough/Nelson-Tasman/West Coast 7.4 percent, Manawatu-Whanganui/Taranaki 2.0 percent, Northland 7.5 percent, Otago/Southland 6.8 percent, Waikato 3.6 percent, and Wellington 1.2 percent. By industry for the quarter, vacancies rose fastest in Health (up 9.4 percent), and Primary (up 3.7 percent), while they fell 0.2 percent in Construction. Over the year Health also lead (up 30.4 percent) while Education (11.8 percent), IT (14.0 percent), and Primary (12.2 percent) all rose more than 10 percent. By occupation, Community and Personal services vacancies grew fastest over the quarter at 6.1 percent, followed by those for Labourers' (4.6 percent), and Clerical and Administration (up 4.2 percent). Over the year, the fastest growing vacancies were for Professionals (up 18.4 percent), followed by Labourers (up 11.0 percent) and Community and Personal services (up 10.5 percent).





★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to December 2018 and increased 1.9 percent in the year. The annual increase was equal to the 1.9 percent increase in the CPI. The LCI increased 0.7 percent in the public sector and 0.5 percent in the private sector in the three months. Over the year it rose 1.7 percent in the public sector and 2.0 percent in the private sector. Statistics New Zealand reports that "The key influence for higher private sector wages was the retail industry. This was partly due to the minimum wage increase in April 2018." The annual increase in the public sector "reflected the remaining two-thirds of the nurses' pay settlement, which came into effect in August 2018". During the year, 44 percent of jobs surveyed did not receive a pay rise, and 45 percent of private sector jobs got no rise. For the 56 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.7 percent and the average increase was 3.8 percent. For those jobs in the public sector that received increases during the year, the median increase was 2.1 percent and in the private sector 2.9 percent; the average increase in the public sector was 3.0 percent and in the private sector 4.0 percent. We estimate that over the year, jobs on collective employment agreements were 1.9 times as likely to get a pay rise as those which were not, and were more likely to get a pay rise of any size ranging from less than 2 percent to over 5 percent. Only 51 percent of jobs that were not on a collective got a pay rise during the year whereas the Centre for Labour, Employment and Work reports that 99 percent of those on a collective stating pay rates got a pay rise in the year to June 2018.

- ★ The Quarterly Employment Survey for the three months to December 2018 found the average hourly wage for ordinary-time work was $31.63, up 0.9 percent on the previous quarter and up 3.1 percent over the year, significantly more than the 1.9 percent rise in the CPI. Female workers (at $29.45) earned 12.1 percent less than male workers (at $33.51) for ordinary time hourly earnings. This pay deficit has fallen from 13.2 percent two years ago in December 2016. The average ordinary-time wage was $29.66 in the private sector, up 1.0 percent in the quarter and 3.7 percent in the year. In the public sector the average ordinary-time wage was $39.54 which was up 0.6 percent in the quarter and up 1.8 percent in the year. Average total hourly wages (including overtime) ranged from $20.48 in Accommodation and food services and $22.40 in Retail trade, to $45.05 in Finance and insurance services, and $40.20 in Information, media and telecommunications. In Accommodation and food services, 57.6 percent of employee jobs were part time, and in Health care and social assistance 42.2 percent were part time; in Retail trade 40.2 percent were part time; 38.0 percent were also part time in Arts, recreation and other services; 33.4 percent in Education and training; 25.7 percent in Rental, hiring, and real estate services; and 25.0 percent in Professional, scientific, technical, administration and support services. Together these seven industries made up 82.5 percent of all part time work. (However the QES does not include agriculture or fishing and excludes very small businesses.)

- The Consumer Price Index (CPI) rose 0.1 percent in the December 2018 quarter compared with the September 2018 quarter. It rose 0.4 percent in seasonally adjusted terms. It increased 1.9 percent in the year to December, the same as in the year to September. For the quarter, the largest single upward influence was Recreation and Culture, which rose 2.5 percent, almost half of which came from a 5.3 percent rise in Accommodation services (including overseas accommodation prepaid in New Zealand). Next came Transport which rose 1.1 percent, despite petrol falling 0.6 percent, driven mainly by a 7.1 percent increase in Passenger transport services, particularly a 13.8 percent rise in Road passenger transport and a 7.6 percent rise in international air transport. Housing and household utilities (up 0.5 percent) continued to be a significant factor, mainly due to rising rents (up 0.6 percent) and the cost of new housing (up 0.9 percent, though it varied from 0.5 percent in Canterbury and Auckland to 1.4 percent in Wellington). Increases in housing costs also came from a further increase of 2.3 percent in house insurance and 1.1 percent in contents insurance over the quarter, though mortgage interest rates (not in the CPI) continue to fall – by 0.8 percent (note – not 0.8 percentage points) in the quarter according Statistics New Zealand. There were also some significant negative contributions bringing down the rise in the overall index. Food prices fell 1.3 percent, led by a 20.7 percent fall in vegetable prices which more than offset by Meat and poultry (up 3.2 percent) and Fish and other seafood (up 1.7 percent). The fall in food prices almost cancelled out the rise in housing and transport prices in the index. There were also significant falls in Alcoholic beverages and tobacco (down 1.4 percent), clothing and footwear (down 1.2 percent), and

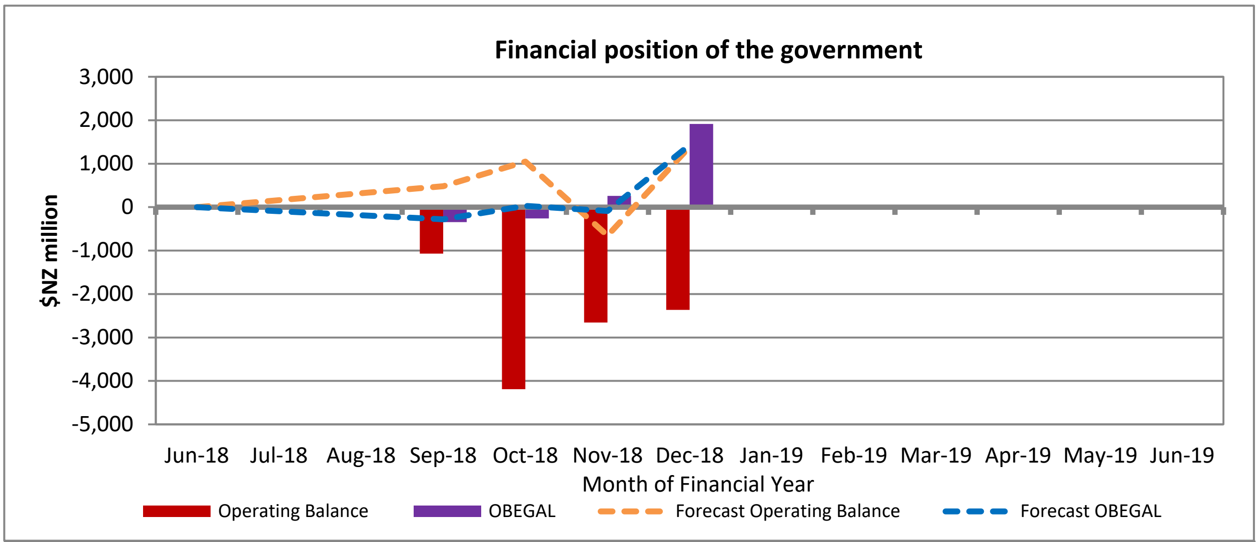
Household contents and services (down 0.8 percent). Over the year, Housing and household utilities and Transport were the two largest contributors to the rise, responsible for 39.8 percent and 26.6 percent of the rise respectively. In Housing and household utilities, which rose 3.1 percent overall, rents rose 2.4 percent, purchase of new housing rose 3.6 percent, property maintenance rose 3.2 percent, property rates and related services rose 4.6 percent, and household energy rose 2.3 percent. In addition, house insurance rose 15.2 percent and contents insurance rose 3.3 percent. In Transport, which rose 3.5 percent overall, most of the pain came from petrol, up 11.1 percent and other vehicle fuels and lubricants, up 20.5 percent. Meanwhile vehicle insurance rose 7.2 percent. Rents rose fastest in Wellington (up 4.0 percent for the year) and slowest in Canterbury (up 0.8 percent for the year). In seasonally adjusted terms, the CPI rose 0.4 percent over the last three months, Food rose 0.5 percent, Alcoholic beverages and tobacco rose 0.3 percent, Clothing and footwear fell 0.9 percent, Housing and household utilities rose 0.7 percent, Communications rose 0.3 percent, Recreation and culture rose 1.6 percent, and Education rose 0.5 percent. Over the year, in Auckland consumer prices rose 1.8 percent, in Wellington they rose 1.5 percent and they rose 2.2 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 1.8 percent and prices rose 2.0 percent in the rest of the South Island.

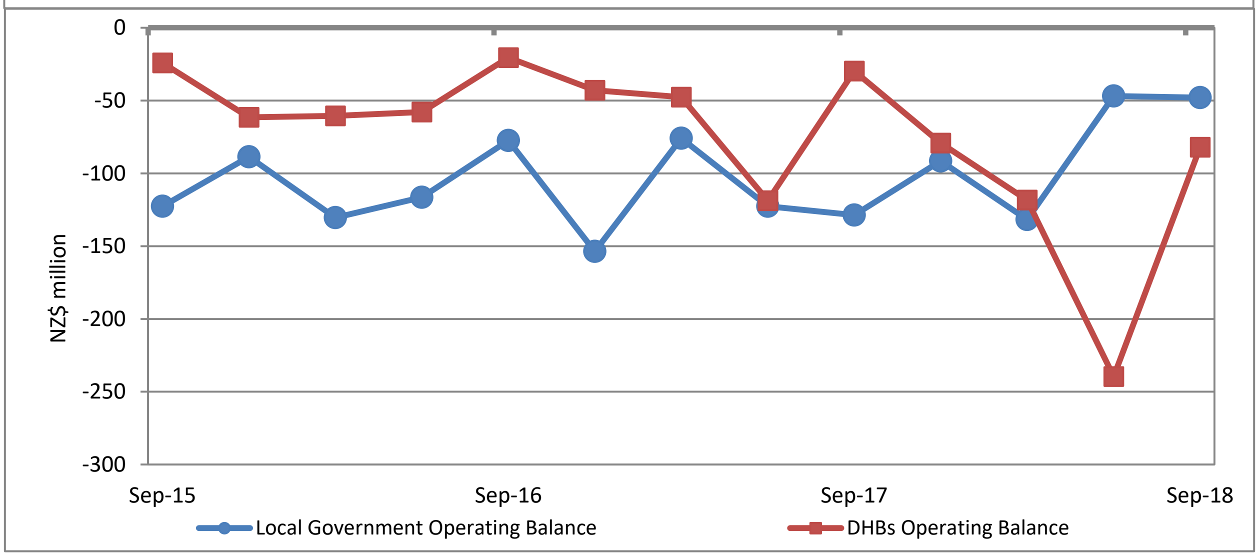
★ The Household Living-costs Price Indexes (HLPIs) for the year to December 2018 again, like in the September year, unusually showed lower income households experiencing (slightly) slower price rises than higher income households over the year, and in the latest three months. By income, the lowest income households saw their living costs rise 2.0 percent over the year while the highest income households living costs rose 2.1 percent. However, by expenditure, the lowest spending households saw their living costs rise 2.0 percent over the year while prices for the highest spending households rose 1.8 percent. The difference in cost increases occurs because different households spend their money on different things. For example, prices for the necessities of housing and food dominate low income households' spending: 54.5 percent of the expenditure of the lowest income one-fifth (quintile) of households went on Food and Housing and household utilities in 2018, compared to being only 32.7 percent of the expenditure of the highest income one-fifth. Over the year, the All households HLPI index rose 2.1 percent, the Beneficiary households index rose 2.2 percent, the Māori households index rose 2.3 percent, and the Superannuitant households index rose 2.1 percent. By income quintile, the index for the lowest income households (quintile 1) rose 2.0 percent, quintile 2 rose 2.1 percent, quintile 3 rose 2.1 percent, quintile 4 rose 2.3 percent, and quintile 5 (the highest income) rose 2.1 percent. By expenditure quintile however the pattern is reversed, with low spending households experiencing faster price growth than high spending households. The index for the lowest expenditure households (quintile 1) rose 2.0 percent, quintile 2 rose 2.2 percent, quintile 3 rose 2.2 percent, quintile 4 rose 2.1 percent, and quintile 5 rose 1.8 percent. Over the December quarter, the All households HLPI index rose 0.1 percent, the Beneficiary households index rose 0.0 percent, the Māori households index rose 0.0 percent, and the Superannuitant households index rose 0.0 percent. By income quintile, over the quarter the index for the lowest income households (quintile 1) rose 0.0 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.0 percent, quintile 4 rose 0.1 percent, and quintile 5 rose 0.1 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) fell 0.1 percent, quintile 2 fell 0.1 percent, quintile 3 rose 0.1 percent, quintile 4 rose 0.2 percent, and quintile 5 rose 0.2 percent.

HLPIs show price increases like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by fourteen different types of households. See the commentary in the November 2016 Bulletin for more detail. Weights reflecting the proportion of different products bought by households were updated starting from the December 2017 release.

★ The Food Price Index rose 1.0 percent in the month of January 2019 and fell 0.6 percent in seasonally adjusted terms. Food prices rose 0.8 percent in the year to January 2019. Compared with the previous month, fruit and vegetable prices rose 4.5 percent (and were down 0.2 percent seasonally adjusted); meat, poultry, and fish rose 0.5 percent; grocery food prices rose 0.9 percent (and fell 0.1 percent when seasonally adjusted); non-alcoholic beverage prices rose 0.5 percent; and restaurant meals and ready-to-eat food prices rose 0.2 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)

Public Sector





★ According to Treasury's Financial Statements of the Government of New Zealand for the seven months to 31 January 2018, core Crown tax revenue was $251 million (0.5 percent) higher than forecast in the December 2018 Half Year Economic and Fiscal Update (HYEFU 18). Both PAYE and customs and excise duties were $0.2 billion above forecast, and GST was $0.1 billion above forecast, while Corporate tax revenue was $0.2 billion below forecast. "Many major taxpayers' provisional tax assessments were also below forecast." Overall core Crown revenue was $162 million or 0.3 percent above forecast. Core Crown expenses were $638 million (1.3 percent) below forecast. The resulting $1.9 billion surplus in the Operating Balance before Gains and Losses (OBEGAL) was $481 million more than forecast while the Operating Balance, a $2.4 billion deficit, was $3.8 billion below the forecast $1.4 billion surplus. This was partly due to unforecast net investment losses of $0.5 billion due to unfavourable changes in market prices and foreign currency exchange losses. In addition, there were net losses of $3.8 billion on ACC and Government Superannuation Funds due to changes In discount rate assumptions increasing their claims liability. Net debt at 20.7 percent of GDP ($60.3 billion) was $0.2 billion higher than forecast. Gross debt at $88.8 billion (30.5 percent of GDP) was $0.75 billion lower than forecast. The Crown's net worth in financial terms was $3.9 billion lower than forecast at $127.7 billion. Note that the above debt figures are for the Core Crown; total debt was $114.5 billion, $2.5 billion lower than forecast.

- ★ District Health Boards had 718 fewer full time equivalent staff than planned at the end of December 2018 (66,807 compared to 67,524 planned) according to the first DHB financial data released on the Ministry of Health web site for many months. Only Nursing Personnel had more staff (281) than planned, but these were offset by shortfalls in Medical Personnel (doctors) who were 216 fewer than planned, Allied Health Personnel (506 short), Management/Administration staff (162 short), and Support Personnel (114 short). Average costs per full time equivalent staff were very close to plan ($99,120 compared to $98,506 planned). The DHBs had accumulated combined deficits of $206.8 million in the six months to December 2018. This is $33.5 million worse than their plans. The Funder arms were in surplus by $33.0 million, $24.3 million more than the $8.8 million surplus planned, and Provider arms (largely their hospitals) in deficit by $242.0 million, $59.4 million worse than planned. On 21 February, the Minister of Health put out a media release saying the DHBs "are on notice to improve their financial performance and demonstrate they have a plan to return to financial sustainability." It said that this financial report shows "almost all DHBs are expecting to end the current financial year in the red, with a potential budgeted year-end deficit for all DHBs of around $346 million". The Northern region was $8.8 million behind plan with a deficit of $48.7 million and all four DHBs in deficit including Counties Manukau with a $24.2 million deficit. The Midland region was $9.1 million behind plan with a deficit of $48.1 million and all of the five DHBs in deficit including Waikato with a deficit of $24.4 million. Central region was $4.5 million behind plan, a combined $38.0 million deficit and all of the six DHBs in deficit. The Southern Region was $11.1 million behind plan with a $72.1 million deficit and all five DHBs in deficit, with Canterbury showing a $41.3 million deficit and Southern $25.9 million. In all, all of the 20 DHBs were in surplus and only three were ahead of plan. The DHB furthest ahead of plan was Hutt Valley by $2.7 million though with a deficit of $1.5 million, and Auckland was furthest behind, by $9.7 million with a deficit of $12.6 million. Capital expenditure across all DHBs was $119.2 million behind plan with $197.5 million spent out of $316.7 million planned.

- Local Government in the September 2018 quarter recorded a 2.1 percent ($54.9 million) rise in operating income in seasonally adjusted terms and a 2.1 percent rise in operating expenditure ($55.9 million) including a 1.1 percent rise in employee costs (up $6.4 million) compared to the previous quarter. This resulted in an operating deficit of $48.0 million in the quarter, compared with a deficit of $46.9 million in the previous quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010. Note that the latest quarter results are provisional and all are seasonally adjusted figures which are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin207. For further information contact Bill Rosenberg.