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Commentary

Transforming New Zealand's low wage economy

Summary

This commentary is an edited version of a recent speech, "Transforming New Zealand's low wage economy". Whether we look at international comparisons, or look at whether employees are getting a fair share of the income that their work generates, New Zealand is a low wage economy. New Zealand wages adjusted for the cost of living have fallen from middle of the 23 countries in the OECD in 1990 to 5th lowest. Part of the reason is the poor productivity performance of firms. But wages have failed to keep up with even that weak productivity growth. If real wages in the market economy had risen at the same rate as labour productivity since 1989, the average hourly wage would have been over a quarter or almost $8 higher in March last year. Similarly, we can look at the share of the nation's total income going to wages: the labour share of income. If it was the same as in 1981, average annual wages would have been $11,800 higher in the year ending March 2018. We have among the lowest labour income shares in the OECD – 7th lowest in 2017. It is sobering that two of our largest export industries, agriculture and tourism, have among the lowest wages.

What are the possible causes? It's not laziness (we work longer hours than most of the OECD), nor because of lack of skills or qualifications. Low productivity is a factor but far from the full explanation as we have seen. When wages are low, there is less incentive for employers to improve productivity. Technology is unlikely to be a significant cause but offshoring of jobs to lower wage countries, or the threat of it, likely is. Reduced employment protection, , insecure working conditions such as labour hire, casualised, "Uberised" and contracted work, and low income support when people lose their jobs, are other contributors.

But one of the most important is the weakened bargaining power of wage earners when negotiating with employers to set wages and other working conditions. Even conservative institutions like the OECD are now recognising the importance of collective bargaining, and particularly sector collective bargaining, to counteract that: "collective bargaining contributes to a broad sharing of productivity gains by promoting wages and working conditions." Sector collective bargaining is currently non-existent in New Zealand unlike most European countries.

What can be done? There are three broad areas that need improvement: First, we need to develop a well-designed and effective industry policy to increase productivity by producing higher value goods and services, reducing our reliance on commodities like milk powder, logs and low value tourism. Second, we need to ensure that working people benefit fairly from New Zealand's productivity, and an important step towards that would be sector collective bargaining such as through the proposed Fair Pay Agreements, and growing the number of workers who benefit from it. Third, we need much better support for people as they and New Zealand go through change, whether it is due to technology, globalisation, climate change or employers restructuring or going out of business.

This week I was invited to speak on the topic "Transforming New Zealand's low wage economy" in Nelson. This is an edited version. If you would like the full version, including examples and sources, email me.

I once wrote a paper for an academic blog called, in rather unacademic language, "New Zealand's wages system is buggered". In a way that is my theme. I will talk a bit about how our industrial laws and employment relations are failing. Then I'll move on to some of the possible causes, and end up with some solutions and what they might mean in transforming New Zealand's society for the better.

New Zealand has a low wage economy

New Zealand does have a low wage economy. That is not to say that we have the wages of a third-world country, but that for a developed economy, our wages are low compared to both similar economies and to what New Zealand employers could afford to pay. I'm using wages as shorthand for both wages and salaries – the income paid to employees. There are a number of ways to look at this.

To start with, we can compare wages with other developed countries – those in the Organisation for Economic Cooperation and Development, the OECD. They publish annual average wages for full-time equivalent employees, adjusted for the cost of living in the various countries, enabling a comparison of the purchasing power of wages. For 2017, New Zealand's wages were 19th among 35 OECD countries.

But we aren't really around the middle of the bunch. Since 1994, new countries have joined the OECD, including Mexico, Chile, and eight from Eastern Europe, all with lower wages than New Zealand. We were genuinely middle at 13th of the 23 member countries in 1990. We have fallen to 5th lowest among them.

Some will say that the difference is because New Zealand firms have had a poor productivity performance. But wages have failed to keep up with even that weak productivity growth.

If real wages (wages adjusted for the cost of living) in the market economy – that's putting aside most public services – had risen at the same rate as labour productivity since 1989, the average hourly wage would have been over a quarter (26%) or almost $8 higher in March last year (it would have been $37.68 instead of $29.80). Even taking into account additional holidays, KiwiSaver contributions and other parts of the remuneration package it would still be a sixth (17%) or over $5 higher. Workers are not being fairly recognised for their higher productivity, and the gap has worsened since 2009.

Similarly, we can look at the share of the nation's total income going to wages: the labour share of income. Broadly speaking, part of the nation's income goes to labour, and part to the owners of assets (capital) such as in interest, dividends, and self-employment income. The labour share of income peaked in 1981 at 71% of our country's income (after allowing for depreciation of assets), a share very similar to other OECD countries at the time. Last year it was 59%, 12 percentage points lower. Every 1 of those 12 percentage points is worth just under $1,000 per year on average per wage earner. If the labour income share was the same as it was in 1981, average annual wages would have been $11,800 higher in the year ending March 2018. While labour's income share recovered a little during the 2000s, it has been falling again since 2009, a loss worth $2,100 per year on average for each wage earner. We have among the lowest labour income shares in the OECD – 7th lowest in 2017.

So whether we look at international comparisons, or look at whether employees are getting a fair share of the income that their work generates, New Zealand is a low wage economy.

There are other indicators. Two out of every five children in poverty are in households where at least one adult is in full-time employment or is self-employed according to veteran MSD researcher Bryan Perry.

Economist Brian Easton reports that "The majority of the poor are couples with jobs, with some – but not a lot of – children living in their own home albeit with a mortgage".

For those who try to get out of the trap through education, the results are mixed. Degrees can be well rewarded, though a lot of graduates end up in jobs unrelated to their degrees. But many vocational qualifications are poorly rewarded. There has been a series of research studies on this. One found for example that gaining a workplace-based qualification at level 4 or higher improved participants' earnings, but only by 7 percent more than comparable workers. Gaining a qualification at level 3 improved the average earnings of males by 2 percent but females saw no rise.

Not only is this a problem for the working people who find it difficult to live a decent life on their wages, but it is embedded in the structure of our economy. It is sobering that two of our largest export industries, agriculture and tourism, have among the lowest wages.

What could be the causes?

So what could be the causes of New Zealand becoming a low wage society?

It is not because New Zealanders are lazy. We work longer hours than most of the OECD, and it is the lower income workers who have been increasing their hours while those on higher incomes reduce them.

Neither is it because New Zealanders lack skills. They are well educated with a qualifications profile not much different from the OECD average, and have good skill levels to the extent they can be compared.

Low productivity is a contributor to low wages but it is far from the whole story. As we have seen, wages are falling behind even the weak productivity growth firms do manage.

In fact low wages could be a *cause* of the poor productivity. Raising productivity requires employers to invest more in their businesses, and use better ways of organising their businesses. It requires employees to be allowed more control over their own work, encouraging them to find ways to do things better rather than insisting on command and control management that is the rule in many New Zealand businesses. When wages are low, there is little incentive for employers to invest in these more challenging improvements. It is revealing to hear employers say in reaction to the rises in the minimum wage planned for the next three years "we might have to increase productivity".

Is technology part of the reason for low wages? There is no evidence it has been in the past, and we have been through many cycles of technology change. It could increase inequality in the future, creating a relatively small proportion of well-paid highly skilled jobs, while many middle-skill jobs disappear. But that is by no means certain, and given that New Zealand employers have been slow to invest in new technology, it is unlikely to be the cause of our current low paid state.

We can make choices about our future, which should include sharing the benefits of technology fairly and supporting people through these big changes rather than accepting them as inevitable. The Government's Future of Work programme with the CTU and Business New Zealand is starting work on this.

Could it be the forces of globalisation: offshoring of jobs to developing countries with very low wages, or the threat of it, forcing down wages? This happened in New Zealand, particularly during the 1980s and 1990s, and it is continuing with offshore call centres and many Fisher and Paykel products being made in Mexico and elsewhere. Trade can *on average* increase incomes, but there are winners and losers and if the winners don't compensate the losers, it leads to falling incomes for many.

Reduced employment protection, such as the "fire at will" 90 day trials, insecure working conditions such as labour hire, casualised, "Uberised" and contracted work, and low income support when people lose their jobs, are other contributors to low wages.

I have left one of the most important causes to last. This is the weakening of the bargaining power of wage earners when negotiating with employers to set wages and other working conditions. Our law and international conventions recognise that there is an imbalance in power between workers and employers. Legislated labour standards and collective bargaining are the recognised solution to this. There is growing international evidence and acknowledgement that the imbalance has got much worse since the 1980s, and more in New Zealand than many other countries.

Moving production to lower wage countries and the ability of multinationals to switch between countries have all reduced workers' bargaining power. But so have greatly weakened industrial relations laws such as the Employment Contracts Act in 1991, which cut union membership and collective bargaining coverage by more than half and which current legislation still hasn't fixed. Such laws make it easier for employers to resist their workers joining unions and joining together to negotiate collective employment agreements which cover a whole firm, several firms or a whole sector. In 2016 we had the fifth lowest proportion of workers covered by collective agreements in the OECD.

Weak bargaining power allows monopolies to hold down wages, insecure workers to be exploited, training to be neglected, lack of recognition of people's skills in their pay, and uneven sharing of benefits from technology.

There has been a big switch in the attitudes of conservative international institutions like the OECD and the International Monetary Fund since the Global Financial Crisis. Even 10 or 15 years ago, the OECD was advocating policies that worsened the imbalance in bargaining power and reduced people's security of employment in the name of flexibility and economic growth. In its latest policy recommendations it acknowledges that better protection against being dismissed doesn't threaten economic growth. It advocates that governments should support increased collective bargaining, particularly collective bargaining across whole sectors of the economy.

In its 2018 Job Strategy the OECD stated:

> Productivity growth is a pre-condition for higher living standards. Yet, productivity growth does not automatically translate into higher wages and better working conditions, nor does it necessarily lead to the creation of more quality jobs.
>
> … Collective bargaining has the potential to play a central role in all aspects of labour market performance, including: i) wages and non-wage working conditions; ii) employment and unemployment; iii) inequality; and iv) productivity. There is a broad consensus in the literature that collective bargaining contributes to a broad sharing of productivity gains by promoting wages and working conditions.

What can be done?

There are three broad areas that need improvement:

First, we need deliberate policy to improve New Zealand's productivity - move to producing higher value goods and services, reducing our reliance on commodities like milk powder, logs and low value tourism.

Second, we need to ensure that working people benefit fairly from New Zealand's productivity.

Third, we need much better support for people as they and New Zealand go through change, whether it is due to technology, globalisation, climate change or employers restructuring or going out of business.

1. Moving to higher value

Having a deliberate policy to move to higher value production is called industry policy. It went out of fashion in the 1980s and 1990s which was dominated by so-called neoliberal policies that asserted that this like most things could be left to “the market” – a view which has clearly failed. Many countries are now rediscovering industry policy and its close relative, regional development policy. In fact it had never gone away. The internet and World Wide Web were government financed developments; smartphone components that make them smart were developed by US government agencies; most genuinely new pharmaceuticals are developed by government funded research institutes. In New Zealand, the government developed our railways, roads and telecommunications system, has long supported forestry, plant and animal breeding, it played a big part in geothermal energy development, Fonterra has a special status granted by the government, and there are many more examples.

The current Government appears open to this thinking. Its “Just Transition” programme includes industry development. The idea is to support communities affected by climate change: support individuals affected and support the development of new industries to replace those that are not sustainable.

It is also thinking about industry policy in its Future of Work programme. One of the work streams is looking at how we can speed the development of advanced manufacturing in New Zealand.

It is not yet clear exactly what paths the Government will take. It certainly includes regional development. Higher value doesn’t all have to be high technology: it would make a big difference to a region if it processed much more of its forests into higher value products instead of exporting the majority as logs.

One way to raise the value of what we do is to do it better. We and the Government are interested in spreading a successful way of working adopted by unions and management at both Air New Zealand and Kiwirail called High Performance, High Engagement. It engages everyone on the job in decision-making, using their knowledge to make improvements to the way things are done. At Kiwirail, the average time to overhaul a locomotive in their Hutt workshop has reduced by a third, safety has improved, relationships have improved, and productivity gains have been recognised in their collective pay negotiations.

Industry policy is not easy, but there is considerable international experience as to what works and what to avoid. New Zealand has to rebuild that knowledge after decades of neglect. Mistakes will be made, just as private commercial developments make mistakes, but that is better than continuing along our current low value path.

2. Sharing the benefits

One way to ensure that working people benefit fairly from New Zealand’s productivity is to maintain and improve the level of the minimum wage. While a strong minimum wage is essential, it is a rather blunt instrument: we cannot continue to raise it faster than other wages forever, and it has only a weak effect on wages above it. If we want fairer sharing of income, including better recognition of qualifications and skills, then we need more than that: more widespread and effective collective bargaining.

Currently almost all collective bargaining with private employers, which is where the majority of people work, is at the level of a single employer or single firm. Our experience and international experience is that this is weak at reducing inequality and the benefits are not widespread.

The OECD’s Job Strategy advocates

> *organised* decentralisation which allows sector-level agreements to set broad framework conditions but leaves detailed provisions to firm-level negotiations [which] tends to deliver good employment performance, better productivity outcomes and higher wages for covered workers.

New Zealand has no sector-level agreements, which is unusual in the OECD. We used to, but had the one of the steepest falls in coverage of collective agreements in the OECD in the 1990s due to 1991 Employment Contracts Act which made sector agreements and most multi-employer agreement virtually impossible to negotiate.

This is where Fair Pay Agreements come in. A Government working party chaired by former Prime Minister Jim Bolger has recommended these. It proposed that workers and unions in an industry or occupation could ask to have one. Which firms and workers would be covered would be subject to negotiation, and the agreement would cover the whole sector. The terms of the agreement would cover pay rates, how increases are determined, working hours, overtime and penal rates, leave, redundancy, skills and training, and anything else agreed to consistent with legal minimum employment standards.

The Fair Pay Agreement would form a floor of conditions for the sector, but unions, individuals and employers could negotiate better conditions. It would have to be ratified by meetings of the workers covered by it and by employers covered by it. Workers could not strike over these negotiations but instead, if agreement could not be reached, an authority would determine its terms.

A Fair Pay Agreement would help solve a number of pressing problems. By forming a floor under pay and conditions in a sector it would mean that reducing pay or holding it down was no longer the main way that companies compete. Instead they would compete on service and quality – a good spur to better performance. Think about how contracts for city bus services currently work. They are periodically contracted out, and companies compete by reducing the pay and conditions of their drivers. If there were a floor that applied to the whole industry they would be forced to compete on quality of service.

Small businesses would not be worried about losing their competitive position by raising pay because their competitors pay rates would go up at the same time too. The Working Group proposed that it would also cover contractors in the sector, so it would help to end the rort of pretending that employees are self-employed contractors in order to reduce the costs and responsibilities of the employer. Including training and skills in the agreements means that there would be an industry approach to developing skills in the industry rather than leaving it to individual employers, each of whom fears that another employer will poach employees they have helped to train. Pay could more easily recognise the skills and qualifications that an employee has gained. This would have great potential in raising productivity and ensuring workers benefit from it.

While this does not go as far as many successful countries in Europe, especially in northern Europe, with much more equal distribution of income and more highly productive, it would help move us towards a fairer sharing of our income and more productive workplaces.

3. Better support for people through change

Change in New Zealand workplaces is continual. Companies go broke, multinationals move operations from country to country, managers love to restructure. On top of that we will see more change from technology and automation, from industries developing or declining due to climate change, and intensified effects of globalisation helped by the likes of the Transpacific Partnership Agreement.

We need to give people much better support as they face such changes. The OECD rates New Zealand's labour market as one of the most deregulated in the developed world, it is ranked bottom for protection against job loss. The "fire at will" 90 day trials are one example, and lack of statutory entitlements to redundancy pay is another. Research by both the OECD and the IMF show that this kind of so-called "flexibility" leads to reduced wages – it is another way in which workers' bargaining power is reduced.

Because of the increasing likelihood of big changes in people's jobs, we need substantial social protections, providing people with sufficient replacement income when they are made redundant and giving them the support they need in finding a decent new job.

All these supports have been weakened rather than strengthened over the past three decades, as another OECD report published in March 2017 found. It observed that

> The downside of flexible labour market regulations is that the costs of economic restructuring largely fall onto individual workers. Indeed, income and especially wage effects upon displacement can be considerable, even for those who successfully return to work, and seem to be more pronounced in New Zealand than in most other OECD countries…
>
> While many displaced workers in New Zealand find a new job quickly, they tend to suffer from a considerable drop in wages, working hours and job quality… wage losses for re-employed displaced workers reach 12% in the first year after displacement, compared with negligible wage effects in Germany and the United Kingdom and a loss of 6% in the United States and Portugal…
>
> … displaced workers are, to a large extent, left by their own to find a new job….
>
> In addition, resources committed to active employment programmes are low and have been falling over time. With 0.33% of GDP spent on active labour market programmes in 2014, New Zealand ranks among the bottom third of OECD countries.

Our support for people who lose their jobs is weak and stingey. Income replacement in many countries is, like ACC, around 80% of the person's previous wages. New Zealand's very low unemployment benefit means people cannot afford to take the time needed to look for a job that suits their skills and experience. They are forced to find lower skilled, lower paid jobs – a further downward pressure on wages and waste of their potential. The northern European countries have decades of experience of what support works including serious retraining opportunities, assistance with career planning and job searching, and financial help with relocation if that becomes necessary.

Conclusion

Helen Kelly used to say about low pay, dreadful health and safety, and the inability of people to exercise their rights at work, "it's by design". Our low wages are by design. As I have tried to map out, there is a whole structure that reinforces a low wage system, whether it is our industry policies, weak collective bargaining, poor protection against dismissal, impoverishing social security benefits, feeble support systems, or an economy open to the forces of globalisation.

But because it is by design – it is the result of human decisions, many of which, though not all, remain in our hands – it can be redesigned. With the will, we can transform New Zealand's low wage economy into one we can be proud of.

Bill Rosenberg

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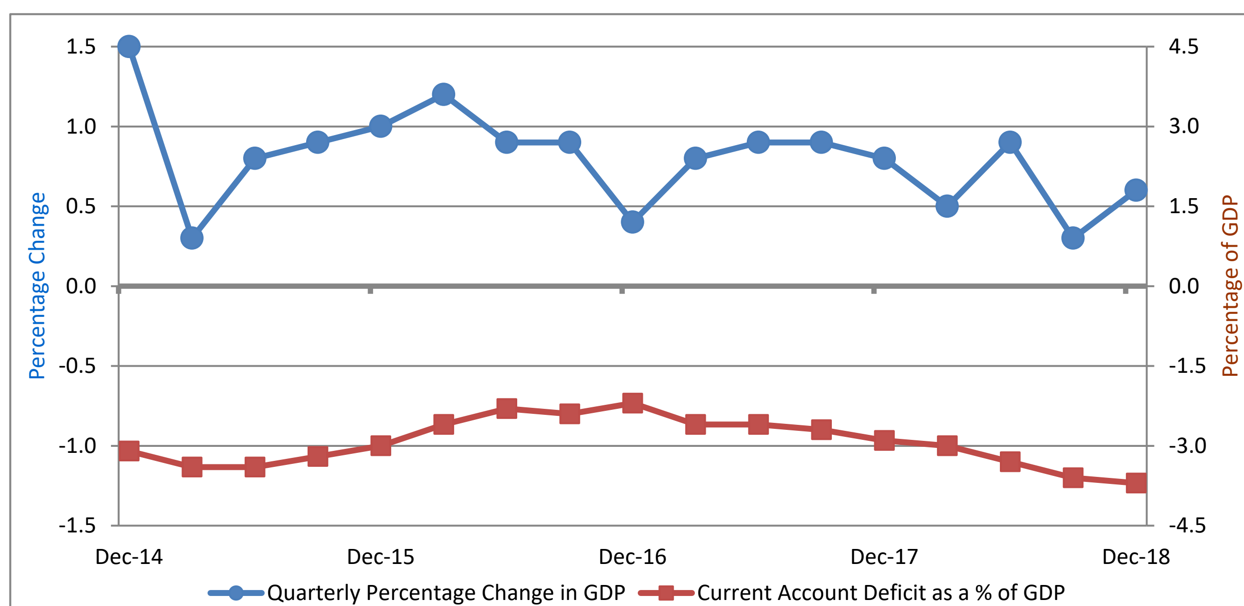
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 18 March 2019.

Annual Percentage Change (March Year)	2018/19	2019/20	2020/21	2021/22
GDP	2.7	2.8	2.9	2.5
CPI	1.7	1.9	2.0	2.0
Private Sector average hourly wage	3.2	3.3	3.3	3.2
Employment	2.5	1.6	1.6	1.4
Unemployment rate (% of labour force)	4.2	4.1	4.0	4.1

Economy



★ Growth in New Zealand's measured economy in the three months to December 2018 was moderate, with Gross Domestic Product rising by 0.6 percent, up from 0.3 percent in the previous quarter, but below the 0.9 percent in the June quarter. Average growth for the year ended December 2018 was

2.8 percent (and 2.3 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 just 0.1 percent in the September quarter, better than a 0.1 percent fall in the September quarter, but up 0.9 percent over 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, fell 0.6 percent over the quarter and rose 0.9 percent over the year.

★ I estimate that **labour productivity**, measured by production per hour worked in the economy, stayed still, growing 0.0 percent in the year to December compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It rose 2.6% in the quarter, seasonally adjusted.

★ **Business investment** rose by 1.3 percent compared to the previous quarter, with a 8.9 percent fall in investment in Transport equipment offset by strong rises in Intangible fixed assets (up 5.2 percent), Non-residential buildings (up 4.1 percent), Land improvements (up 2.4 percent), and Plant, machinery and equipment (up 2.0 percent). Other Construction rose 0.4 percent after a 4.4 percent fall in the previous quarter. Residential construction rose 2.1 percent. All investment spending tends to be very variable from quarter to quarter, and can be significantly affected by a single large purchase such as an aircraft, so single quarter changes do not necessarily indicate trends. Compared to the same quarter the previous year, growth in total investment including housing (Gross Fixed Capital Formation) was 1.1 percent but Business investment grew only 0.3 percent, driven by Intangible fixed assets (up 7.5 percent), Non-residential buildings (up 4.9 percent) and Land improvements (up 3.2 percent), offset by falls in Transport equipment (down 10.9 percent) and Other construction (down 7.7 percent). Investment in housing rose 3.1 percent over the same quarter the previous year. Again, even annual quarter to quarter comparisons can be misleading: Business investment rose 4.3 percent when comparing annual values, and Residential building investment rose 2.7 percent on the same basis.

★ **Household consumption** expenditure grew 1.3 percent in the December quarter in real terms, after a 1.0 percent increase in September and increases of around 1.0 percent in quarters before that apart from a 0.2 percent increase in the March 2018 quarter. It rose a strong 3.6 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, largely reflecting the revenue employers are getting for their products) fell 0.1 percent compared to the same quarter the previous year, and fell 0.3 percent in the most recent quarter.

★ **By industry**, the largest contributors to growth in the latest quarter were Transport, postal and warehousing (up 3.2 percent), Retail trade and accommodation (up 2.5 percent), Rental, hiring, and real estate services (up 1.1 percent), Construction (up 1.8 percent), Public administration and safety (up 1.8 percent), and Health care and social assistance (up 0.9 percent). The largest fall in activity was in Arts, recreation, and other services (down 2.4 percent). There were also contractions in Mining (down 1.7 percent), Electricity, gas, water and waste services (down 1.1 percent), Manufacturing

(down 0.4 percent), and Wholesale trade (down 0.4 percent). Year-on-year, the biggest rises were in Transport, postal and warehousing (up 5.3 percent), Public administration and safety (up 4.2 percent), Wholesale trade (up 4.1 percent), Professional, scientific, technical, administrative and support services (up 3.8 percent), and Retail trade and accommodation (up 3.8 percent); only Mining contracted (down 11.3 percent).

★ New Zealand recorded a Current Account deficit of $2.5 billion in seasonally adjusted terms for the December 2018 quarter, following a $2.5 billion deficit for the previous quarter. There was a deficit in goods trade ($1.0 billion, seasonally adjusted) following a $0.9 billion deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $54 million in goods and services (down from the $148 million surplus in the previous quarter) including a $1.0 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) was almost static on a deficit of $2.5 billion (seasonal adjustment not available). For the year to December 2018, the current account deficit was $11.0 billion or 3.7 percent of GDP, up from the $10.6 billion deficit in the year to September (3.6 percent of GDP). The deficit on investment income was $10.7 billion for the year.

★ The country's Net International Liabilities were $167.3 billion at the end of December 2018, up sharply from $156.3 billion at the end of the previous quarter and $156.3 billion a year before. The December liabilities were equivalent to 57.0 percent of GDP, up from the previous quarter (53.6 percent) and 55.4 percent a year before. The sharp rise is because of a fall in the value of overseas assets owned by New Zealand residents from $269.5 billion to $258.8 billion. Gross international liabilities were equivalent to 145.3 percent of GDP, compared to 146.1 percent in the previous quarter and 144.6 percent a year before. Net international liabilities would take 2.03 years of goods and services exports to pay off, unchanged from 2.03 years a year before. However gross liabilities at $425.8 billion would take 5.17 years of goods and services exports to pay off. The rise in net liabilities over the quarter was due to a net $9.6 billion valuation decrease plus a $1.4 billion net outflow of investment, the great majority of which affected assets owned by New Zealand residents rather than liabilities. Government reserves were reduced by $3.1 billion in the quarter. Statistics New Zealand comments: "The fall in reserve assets was mainly due to The Treasury switching from foreign short-term debt securities to New Zealand based assets ahead of the March 2019 government bond maturity." Without the valuation changes, the net liabilities would have been $157.7 billion. New Zealand's international debt was $295.9 billion (other than shares; equivalent to 100.9 percent of GDP), of which 33.6 percent is due within 12 months, compared to $144.4 billion in financial assets (49.2 percent of GDP), leaving a net debt of $151.6 billion (51.7 percent of GDP). Of the net debt, $4.4 billion was owed by the government including the Reserve Bank, and $115.6 billion by the banks (39.4 percent of GDP), which owed $159.6 billion gross.

★ In international trade in services, exports amounted to $24.9 billion in the year to December 2018, of which over half ($15.9 billion) was Travel and another $3.3 billion was Transportation. Services imports were valued at $20.1 billion, leaving a surplus on services of $4.8 billion for the year. The largest areas of imported services were $4.8 billion in Transportation, $6.7 billion in Travel, $1.5 billion in Insurance and pension services, $0.5 billion in Financial Services, $1.3 billion in Charges for the use of intellectual property (such as franchises, trademark licensing and royalties), $1.3 billion in Telecommunication, computer, and information services (mainly computer services), and $3.3 billion in a variety of Other business services.

- ★ Overseas Merchandise Trade for the month of February 2019 saw exports of goods rise in value by 8.3 percent from the same month last year while imports rose 12.9 percent. This contributed to a trade surplus for the month of $12 million or 0.2 percent of exports, following a series of high deficits in five of the previous six months. There was a trade deficit for the year of $6.6 billion or 11.5 percent of exports. In seasonally adjusted terms, exports rose 7.7 percent or $355 million over the month (compared to a 8.6 percent fall the previous month) with rises led by Dairy products (up 10.8 percent or $133 million), Meat (up 14.7 percent or $82 million), Logs, wood and wood articles (up 5.3 percent or $24 million), and Seafood (up 9.6 percent or $14 million), offset by falls led by Crude oil (down 51.7 percent or $22 million, not seasonally adjusted) and Mechanical machinery and equipment (down 12.3 percent or $20 million). Seasonally adjusted imports rose 0.7 percent or $39 million over the previous month, leaving a trade deficit of $458 million following a $774 million deficit in the previous month. The rising imports were led by Electrical machinery and equipment (up 5.6 percent or $23 million), and Textiles (up 6.4 percent or $16 million), offset by falls led by Petroleum and products (down 26.0 percent or $181 million, not seasonally adjusted), and Mechanical machinery and equipment (down 11.6 percent or $88 million). In the year to February, 24.7 percent of New Zealand's exports went to China, 15.6 percent to Australia, 9.5 percent to the US, and 61.5 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 60.2 percent going to the top six destinations. Over the same period, 19.8 percent of New Zealand's imports came from China (compared to 19.4 percent in the previous year), 11.3 percent from Australia, 10.1 percent from the US, and 58.2 percent from the top six countries selling to New Zealand, compared to 57.5 percent a year before. There were trade surpluses with China ($1.5 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 February 2019 was 53.7, a rise from 53.0 in the previous month. The employment sub-index was at 50.8, down from 52.0 in the previous month.

- ★ The Performance of Services Index for February 2019 was 53.8, down from 56.2 the previous month. The employment sub-index was 51.9, down from 52.7 the previous month.

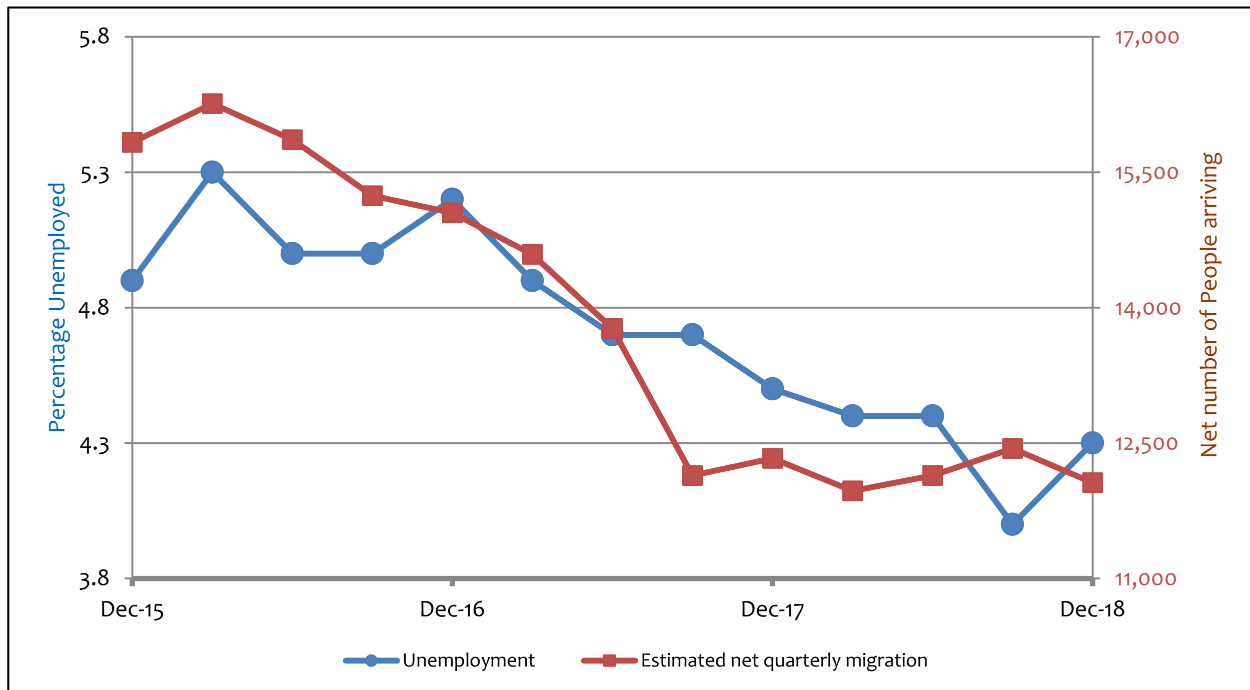
For these indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.

- ★ On 27 March 2019, the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. However it surprised many observers by making clear that any future movement was likely

to be further downward: “Given the weaker global economic outlook and reduced momentum in domestic spending, the more likely direction of our next OCR move is down.” It said: “The balance of risks to this outlook has shifted to the downside. The risk of a more pronounced global downturn has increased and low business sentiment continues to weigh on domestic spending. On the upside, inflation could rise faster if firms pass on cost increases to prices to a greater extent.” The Bank’s view was still that “Employment is near its maximum sustainable level. However, core consumer price inflation remains below our 2 percent target mid-point, necessitating continued supportive monetary policy.” Its concerns about the international situation appear to have grown somewhat: “The global economic outlook has continued to weaken, in particular amongst some of our key trading partners including Australia, Europe, and China. This weaker outlook has prompted central banks to ease their expected monetary policy stances, placing upward pressure on the New Zealand dollar.” It saw slowing domestic growth in 2018 noting “softness” in the housing market and weak business investment. The support for the economy would come from “ongoing low interest rates, and increased government spending and investment” which together with employment growth “should support household spending and business investment”. It singled out “Government spending on infrastructure, housing, and transfer payments” as supporting domestic demand. It repeated the past incantation that “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.” The next OCR announcement will be on 8 May 2019 and will accompany a Monetary Policy Statement.

★ According to REINZ, over the year to February the national median house price rose $30,000 or 5.7 percent to $560,000 and REINZ’s house price index rose 3.2 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 0.8 percent seasonally adjusted while the house price index rose 1.6 percent. In Auckland over the year the median price was down $5,000 or 0.6 percent to $850,000 while the house price index fell 2.0 percent. Over the month, Auckland’s median price was up 2.9 percent seasonally adjusted, and the house price index rose 1.7 percent. Excluding Auckland, over the year the national median price rose $40,000 to $490,000 or 8.9 percent while the house price index rose 8.1 percent. Over the month the median price excluding Auckland was up 1.3 percent seasonally adjusted, and the house price index rose 1.6 percent. There were record median prices in Gisborne (up 25.8 percent over the year to $390,000), Hawke’s Bay (up 6.4 percent to $472,500), Manawatu/Whanganui (up 23.4 percent to $352,000), Wellington (up 16.2 percent to $640,000) and Southland (up 20.8 percent to $290,000). Median prices rose over the year in all of REINZ’s 14 regions except Auckland (down 0.6 percent), the fastest rise being 25.8 percent in Gisborne, with Manawatu/Whanganui up 23.4 percent, not far behind. Seasonally adjusted median prices fell over the month in Waikato (down 3.6 percent), Taranaki (down 1.3 percent), Nelson/Marlborough/ Tasman (down 2.3 percent), and Otago ((down 4.3 percent) but rose in all other regions. Sales fell in eight of the 14 regions over the month, seasonally adjusted, while over the year, sales fell in all but 2 of the regions, averaging a fall of 9.5 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

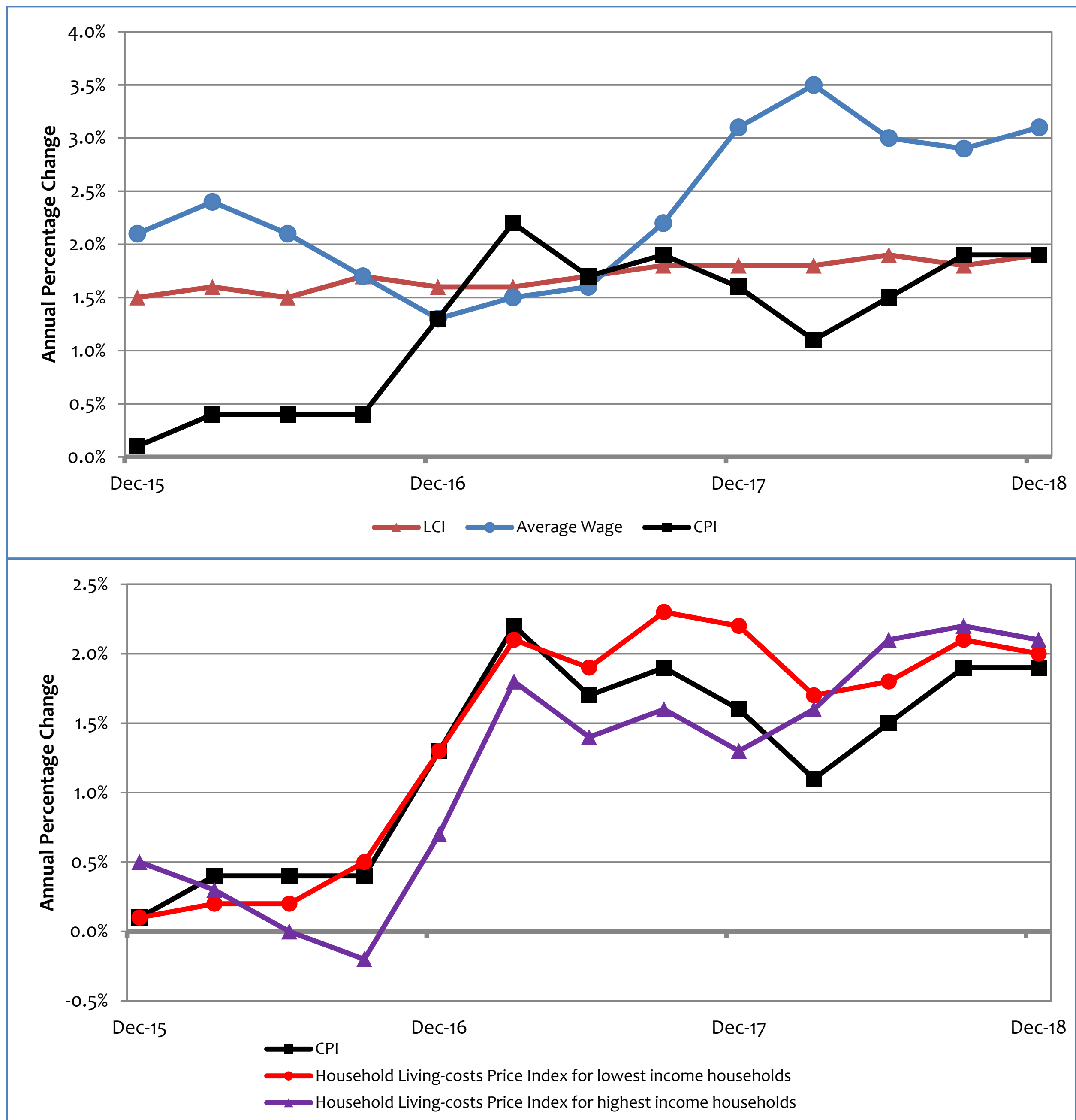
As from November 2018, permanent and long term migration is being estimated in a significantly different way by Statistics New Zealand. Previously it was based on intentions shown on arrival and departure cards filled in as people crossed our borders. Now they are based on observed behaviour: they are 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 14,010 permanent and long-term arrivals to New Zealand in January 2019 and 7,710 departures in seasonally adjusted terms, a net gain of 6,300 which was lower than the (revised) 6,880 estimated for the previous month. There was a seasonally adjusted net loss of 690 New Zealand citizens, compared to a loss of 610 the previous month, and a net gain of 6,990 other citizens, compared to 7,490 the month before. There was an estimated actual net gain of 58,391 migrants in the year to January, up from 52,880 in the year to January 2018. In January, 9.4

percent of the arrivals had residence visas, 19.9 percent student visas, 19.8 percent work visas, and 23.1 percent visitors. A further 27.1 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).

Wages and prices



- 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

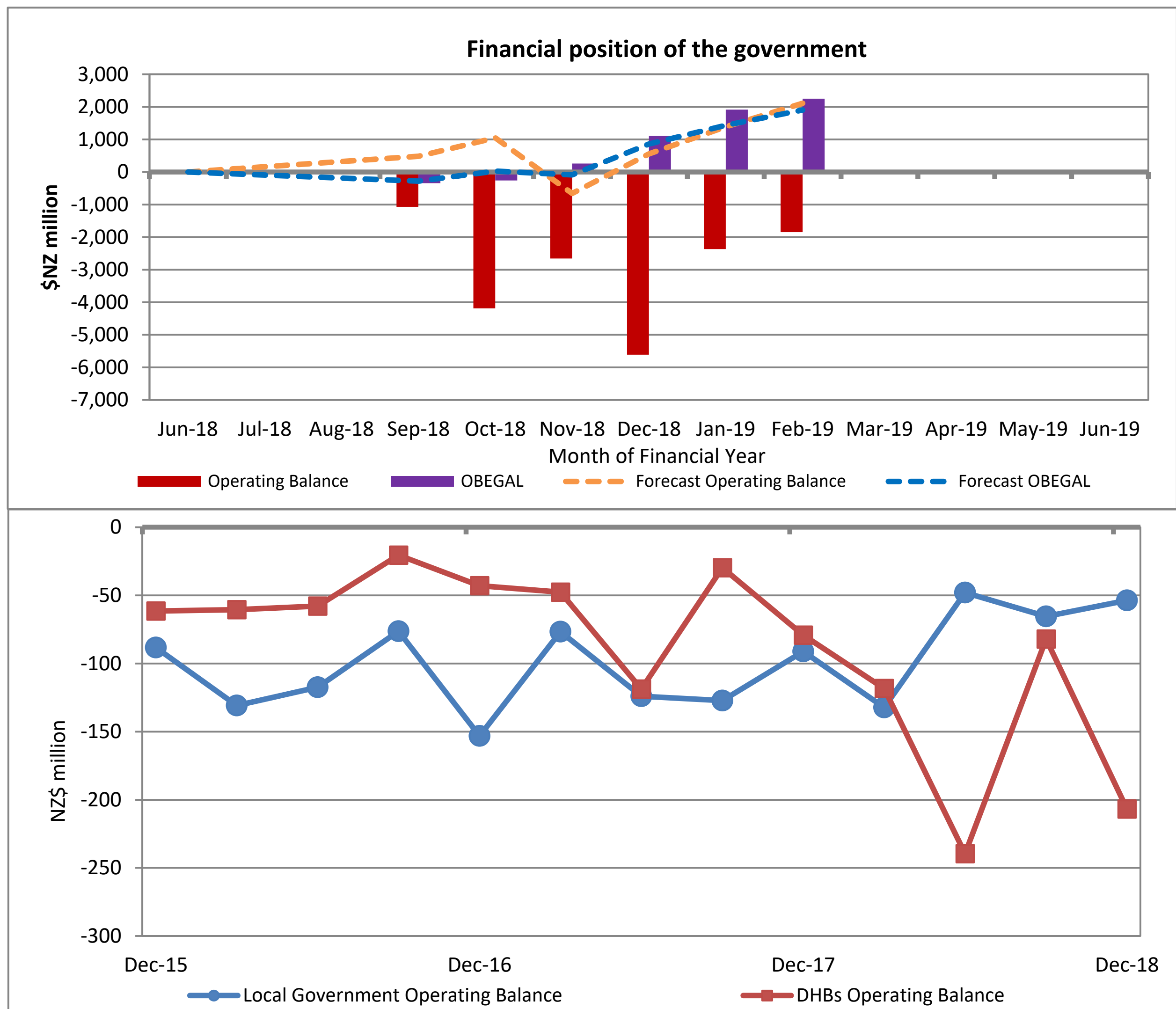
Household contents and services (down 0.8 percent). Over the year, Housing and household utilities and Transport were the two largest contributors to the rise, responsible for 39.8 percent and 26.6 percent of the rise respectively. In Housing and household utilities, which rose 3.1 percent overall, rents 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 0.4 percent in the month of February 2019 and rose 0.7 percent in seasonally adjusted terms. Food prices rose 1.7 percent in the year to February 2019. Compared with the previous month, fruit and vegetable prices rose 2.3 percent (and were up 2.2 percent seasonally adjusted); meat, poultry, and fish fell 0.6 percent; grocery food prices fell 0.8 percent (and fell 0.6 percent when seasonally adjusted); non-alcoholic beverage prices rose 4.1 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 eight months to 28 February, core Crown tax revenue was $137 million (0.3 percent) lower than forecast in the December 2018 Half Year Economic and Fiscal Update (HYEFU 18). This was mainly because corporate tax was $0.4 billion below forecast, partially offset by customs and excise duties $0.2 billion higher than forecast. Overall core Crown revenue was $232 million or 0.4 percent below forecast. Core Crown expenses were $713 million (1.3 percent) below forecast, of which $0.2 billion was due to education spending being lower than expected due to "demand-driven factors across all sectors", and Housing and community development contributed another $0.2 billion underspend (over 25 percent lower than forecast). The resulting $2.3 billion surplus in the Operating Balance

before Gains and Losses (OBEGAL) was $347 million more than forecast while the Operating Balance, a $1.8 billion deficit, was $4.0 billion below the forecast $2.1 billion surplus. This was "largely due to decreases in the discount rate (used to value long term liabilities in today's dollars) and unfavourable movements in exchange rates since the forecasts were prepared", presumably affecting the government's large funds such as the ACC and New Zealand Superannuation Funds. Net debt at 20.4 percent of GDP ($59.9 billion) was $0.4 billion lower than forecast. Gross debt at $89.5 billion (30.5 percent of GDP) was $0.4 billion lower than forecast. The Crown's net worth in financial terms was $4.1 billion lower than forecast at $128.2 billion, mainly due to the lower operating balance. Note that the above debt figures are for the Core Crown; total debt was $115.8 billion, $1.9 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 December 2018 quarter recorded a 0.5 percent ($14.1 million) rise in operating income in seasonally adjusted terms and a 0.1 percent rise in operating expenditure ($2.2 million) including a 2.4 percent rise in employee costs (up $14.5 million) compared to the previous quarter. This resulted in an operating deficit of $53.7 million in the quarter, compared with a deficit of $65.5 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/economicbulletin208. For further information contact Bill Rosenberg.