



NEW ZEALAND COUNCIL OF TRADE UNIONS

*Te Kauae Kaimahi*

# CTU Monthly Economic Bulletin

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## **Commentary**

### **Fair Pay Agreements and the Retail sector**

Last Tuesday the CTU launched a report by economist Dr Ganesh Nana on the evidence as to the impacts of industry (or sector) collective bargaining. We commissioned the study to promote Fair Pay Agreements which the Government is currently considering. Fair Pay Agreements aim to form a floor of wages and conditions for an industry, and to advance industry training.

BERL found (as has the OECD and most countries in Europe), that this form of bargaining is good for employment, helps to close the gap between productivity growth and wage increases, reduces inequality, and has other non-wage benefits such as “job security, working time regulation, quality of working environment, and provision and access to training”.

The sectors where CTU unions want to achieve the first Fair Pay Agreements are supermarkets, security, and cleaning. This commentary looks at the Retail sector.

The minimum hourly pay for a 21 year old shop assistant with six months’ experience in 1981, set under a form of industry collective bargaining (Awards), would have been \$4.71 an hour, worth \$18.62 today. Pay for an entry level supermarket salesperson aged at least 21 would have been \$4.13 an hour in 1980, \$18.89 in today’s terms. Both are well above what many retail workers in similar roles would be receiving today: the minimum wage or a few cents above it. It is above the current national average rate for entry level sales across all parts of the retail sector, which is \$18.22 according to Retail NZ.

One reason for poor increases in earnings was the Employment Contracts Act 1991 which abolished Awards and industry collective bargaining, allowing employers to take advantage of their increased power to make big cuts in retail wages, allowances, pay progression, overtime pay, and conditions. Research by former CTU Economist Peter Conway showed income losses for supermarket workers as big as 44 percent over 8 years.

In real terms, the average Retail hourly wage peaked in 1982 and did not get back to that level until 2015: 33 years later. It fell sharply in a 1982-1984 wage freeze and kept falling until 1995. Even with a relatively steep rise from 2014, it is still only 9.8 percent above its 1982 level.

The share of income generated in the Retail sector that its employees receive has fallen steeply since 2009, amid rising profits. There has been strong labour productivity growth which Retail wage earners have not fully shared in. Productivity grew by 104 percent (more than doubled) between 1978 and 2018, but the buying power of wages rose only 20 percent. Even from an employers’ viewpoint of wages adjusted in terms of their firms’ revenue, between 1978 and 2017 average wages rose only 41 percent, compared to a 97 percent rise in labour productivity.

There is a large gap between wages, workers’ living standards, and what employers can afford. As BERL, the OECD and many European countries have found, industry collective bargaining such as through Fair Pay Agreements must be a major part of a fairer and more productive future.

Last Tuesday the CTU launched a report by economist Dr Ganesh Nana (Nana, 2019) on the evidence as to the impacts of industry (or sector) collective bargaining. We commissioned the study to promote Fair Pay Agreements which are a form of industry bargaining. They were recommended by a Government working group chaired by former National Party Prime Minister Jim Bolger with CTU, business and academic representation. The Government is currently considering its recommendations.

Fair Pay Agreements aim to form a floor of wages and conditions for an industry, and a way to advance industry training. They are a form of industry collective bargaining which is common in Europe, and BERL's report looked at the evidence as to how it worked. Dr Nana was impressed that the OECD has done an about-turn on sector collective bargaining and now favours forms that are similar to what is proposed (see for example OECD, 2018b, 2018a).

BERL and the OECD found that this form of bargaining is good for employment, helps to close the gap between productivity growth and wage increases, reduces inequality, and has other non-wage benefits such as "job security, working time regulation, quality of working environment, and provision and access to training". While it does not threaten productivity growth, BERL says that "by limiting competition on wages and working conditions, a focus (and investment) on quality and innovation-based economic activities may be fostered". To me, that suggests that it encourages productivity growth. You can read more about the proposed Fair Pay Agreements and the BERL report on our website<sup>1</sup>.

At the launch, the CTU announced, together with E tū and First Union, that the sectors where we want to achieve the first Fair Pay Agreements are supermarkets, security, and cleaning.

I gave some examples of New Zealand's poor wage growth in these sectors<sup>2</sup>:

The minimum hourly pay for a 21 year old shop assistant with six months' experience in 1981 would have been \$4.71 an hour, worth \$18.62 today. Greg Harford, Retail NZ's interim Chief Executive, gave evidence in an Employment Relations Authority case<sup>3</sup>, whose decision was released just yesterday, that "the current national average rate for entry level sales across all parts of the retail sector is \$18.22", 40 cents less than that 1981 rate. In addition, the 1981 shop assistant would have received transport allowances, overtime rates, time and a half for working late nights, double time on Saturdays, and triple time on Sundays.

A security guard with three years' experience, doing mobile patrols on night shifts, would have been paid a minimum of \$5.03 an hour in 1981, worth \$19.88 in today's terms. In addition, they would have received overtime rates, time and a half on Saturdays, and double time on Saturday nights and Sundays.

In 1981, a cleaner with five years experience working night shifts would have been paid \$4.37 an hour, equivalent to \$17.27 in today's terms. When you take into account that the cleaner in 1981 would also have received time and a half for overtime and work on Saturday mornings, double time for Saturday afternoons and Sundays, plus allowances for transport and clothing, cleaners today are no better off than they were nearly 40 years ago.

In 2019, all these workers could legally be paid the minimum wage of \$17.70 an hour. There are cleaners, retail workers and security guards working today with no opportunity

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<sup>1</sup> See <http://www.union.org.nz/fpas-will-make-working-life-better/>

<sup>2</sup> I'd like to acknowledge the research carried out by my CTU colleague Nick Henry for this.

<sup>3</sup> First Union vs Jacks Hardware and Timber Ltd, NZERA 374, 2019.

for progression above the minimum wage. With no opportunity to develop their skills through training, or to have their skills and experience recognised in their pay.

These working people are worse off today in real terms than they would have been forty years ago. And yet, in that time, New Zealand has become a much richer country. Many working people who make that growth possible just have not shared in that growth.

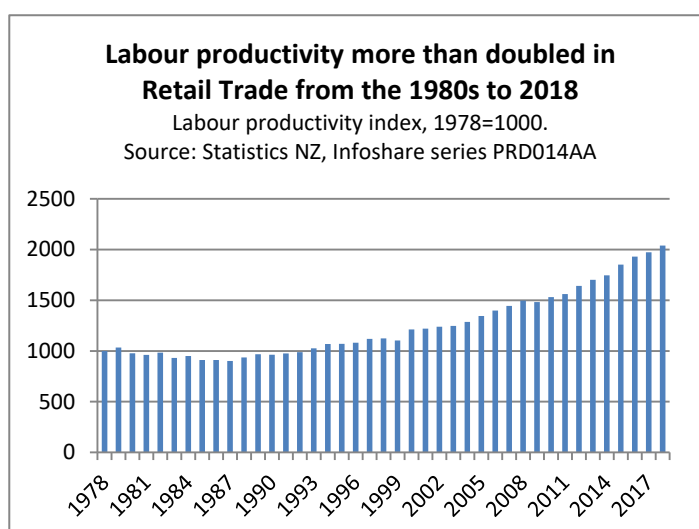
In this commentary I look further at how wages have developed (or stagnated) in the retail sector.

### The Retail Sector

The Retail sector is one of the lowest paid sectors in New Zealand. For example, the average hourly ordinary time wage in retail was \$22.69 in March 2019 according to the Quarterly Employment Survey, higher only than Accommodation and Food Services (\$20.59). The annual income survey that is carried out with the Household Labour Force Survey shows wages only for those two sectors combined, but their median (midpoint) hourly wage was \$18.15 in June 2018, just \$1.65 above the then minimum wage of \$16.50. It is no surprise that Retail has the second highest concentration of minimum wage workers after Accommodation and Food Services. The MBIE officials' paper for the 2018 Minimum Wage review (Ministry of Business, Innovation and Employment, 2018) showed 9.1 percent of Retail workers (17,900) were on the minimum wage. Rises in the minimum wage therefore benefit workers in Retail more than most sectors.

It has always been one of the lowest paying industries, but the historical comparison shows that for many retail workers, the purchasing power of their wage (their real wage) is as low or lower than it was in the 1980s. That is despite official statistics showing that the retail industry's labour productivity has more than doubled over that period.

I gave the example of the shop assistant above. Another example is in supermarkets. An entry level ("Grade 1") salesperson aged 21 or over in a supermarket would have received \$4.13 an hour as from December 1980 when a 1981 Retail Grocery and Supermarkets Award, a form of industry collective agreement negotiated between unions and employers, took effect. That is worth \$18.89 per hour in today's terms (March 2019), and above the \$18.22 stated by Retail NZ's Greg Harford, as the current



national average rate for entry level sales across all parts of the retail sector. In June 2018 its value (then \$18.69) would have been above the median of \$18.15 for Retail, Accommodation and Food Services. It is certainly above the minimum wage that many entry level grocery and supermarket workers are receiving.

In 1981, a supermarket worker would have received additional pay if they had School Certificate (the then standard Year 11 qualification), and more if they had passed the University Entrance qualification. There were automatic increments after each year with the same employer, up to five years. The worker would be promoted to Grade 2 or Grade 3 after 12 months if engaged in duties such as cooking food in a delicatessen, preparing produce in a fruit and vege department, or buying or demonstrating goods for

sale. Overtime pay was time and a half for the first three hours worked and then double time. Saturday, Sunday or statutory holiday work was in general double time with a minimum of three hours paid.

### The effect of the Employment Contracts Act 1991

These penal rates and other allowances were a big part of workers' incomes so the hourly rate was only one factor. For example weekends are worked much more often now than in the 1980s and the loss of penal rates has made a major difference to what retail workers receive for working at those times.

When the Employment Contracts Act took effect in 1991, abolishing the award system, employers took advantage of the unprecedented deregulation of employment relationships to resist any kind of collective agreement, and refusing to negotiate industry agreements to replace the awards. Union and collective agreement membership plummeted under employer pressure. Members of the collective agreements that survived in the Retail sector were forced to make concession after concession on their working conditions including overtime rates, hours of work, allowances and recognition of experience or qualifications.

My predecessor as CTU Economist, Peter Conway, was then working for the main retail union, the National Distribution Union (now part of FIRST Union). He experienced first-hand how income and conditions were stripped away from already low paid workers by employers making full use of their now unbalanced power which was amplified by high unemployment (over 10 percent). This began a downward spiral where even employers willing to maintain their employees' pay and conditions found it difficult to survive against those which forced them down. Peter researched the effect of the Employment Contracts Act on supermarket workers for a Masters degree (Conway, 1998, 1999).

Peter compared three typical working patterns of people in the supermarket workforce between 1987 (before the Employment Contracts Act) and 1997:

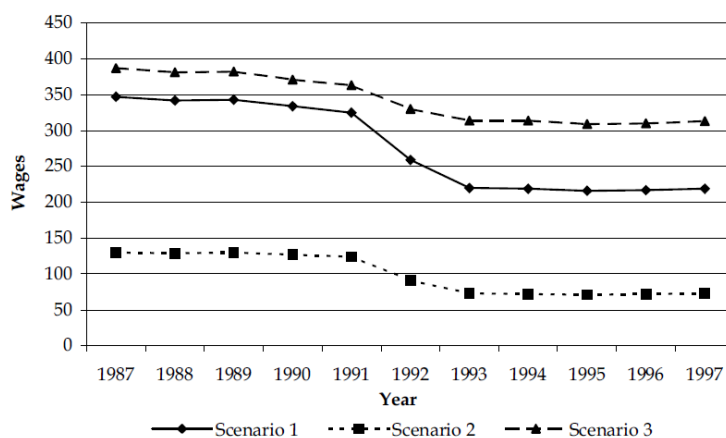
Scenario 1 (part-time adult) is an adult checkout operator aged over 21 years working 28 hours per week including one evening until 7.00 pm and one weekend day.

Scenario 2 (student) is a 16-year-old student checkout operator working 14 hours a week including two evenings and one weekend day.

Scenario 3 (full-time adult) is an adult checkout operator aged over 21 years working 40 hours a week Monday to Friday with no evenings.

He found three effects that were reducing wages. Firstly, wages were falling in real terms, continuing the steep fall from 1982 due to high inflation and a wage freeze imposed by National Party Prime Minister Robert Muldoon between 1982 and 1984. A Grade 1 supermarket worker who would have received \$4.13 in December 1980, worth \$18.89 per hour in today's terms, would have received \$6.50 in 1987, worth just \$13.16 – already a large fall. By 1991 that wage was \$7.71 or \$13.14 in today's terms.

FIGURE 4.3: Combined single-site store and intergenerational effect



Secondly, when workers could not defend their pay and conditions, their fall-back was to “grandparent” their existing conditions, but new employees would be employed under inferior terms (which he called the “intergenerational” effect). So real incomes fell as new staff were employed. With a high turnover of staff, this had a big effect.

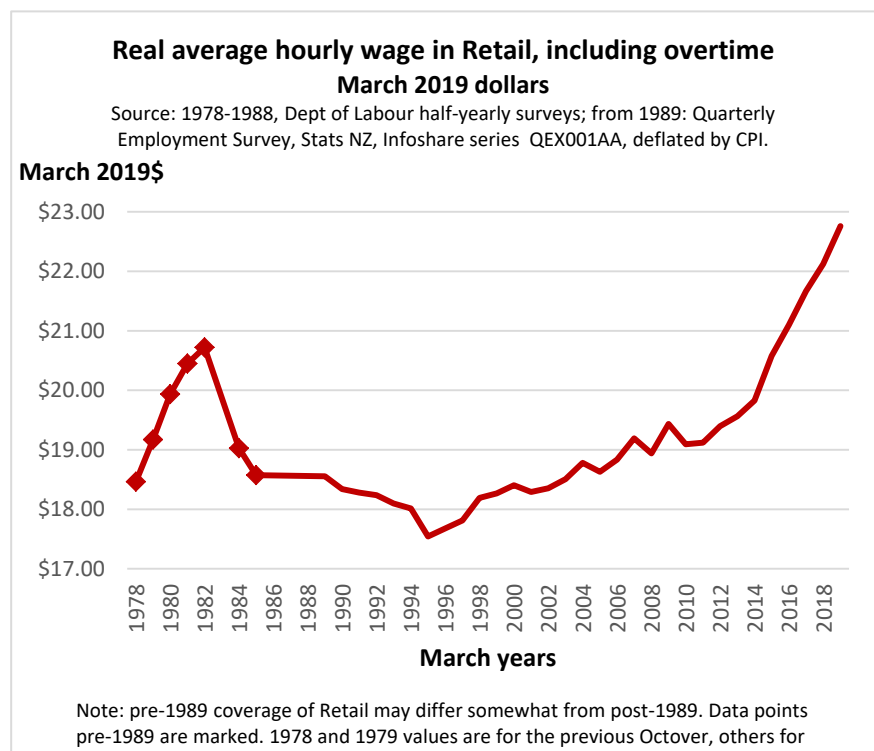
Thirdly, the single-site stores cut pay and conditions more rapidly than the chain-stores.

The combined effect of this is shown in the figure on the previous page (from Conway, 1999, p. 41). Scenario 1 (part time adult workers) lost 30.1 percent in real wages between 1989 and 1997. Scenario 2 (part-time student workers) lost 44.1 percent over the period. Scenario 3 (full time adult workers) lost 11.2 percent. These are substantial losses in income.

During the 1990s, lower paid workers in general made up for reduced pay rates by working longer hours (Stillman, Le, Gibson, Hyslop, & Maré, 2012). From the short-sighted viewpoint of many employers at the time, this was an ideal outcome: lower pay rates and more plentiful supply of desperate workers.

### Average wages since 1978

Clearly, average or even median hourly wages don’t tell the whole story about how earnings have changed in Retail over the last four decades. Particular roles and wage levels, and the changes in worker’s whole pay packages matter, not just hourly rates. However there is still a story to be told from average hourly wage rates. The next figure to the right shows the average hourly wage rate for Retail, including overtime, adjusted by the cost of living (the Consumer Price Index, CPI). The real wage peaked in 1982 and did not return to that level until 2015: 33 years later. It fell sharply with the 1982-1984 wage freeze and kept on falling until 1995. Even with a relatively steep rise in its real value from about 2014, it is still only 9.8 percent above its 1982 level in real terms.



While the recent rise in real wage rates is positive, and

comes at a time of successful union organising in important parts of the sector, it is at time when Retail employers have had strongly rising profits. Retail wages and salaries as a proportion of total income in the sector has fallen since 2009. The first figure on the next page charts the income share going to wages and salaries (the labour income share) in the Retail industry from 1972. It shows how the labour income share fell in the 1980s, rose between 1984 and 1992, before falling again. After a rise during the late 1990s recession it fell sharply until 2003 when it began a steep rise until 2009. Since then, the share has again fallen to a level similar to the 1990s.

This reflects a failure to fully share the strong productivity growth in the sector with wage-earners. Labour productivity grew by 104 percent (more than doubled) between 1978 and 2018, and of that, 90 percent has occurred since 1999. Clearly, the buying power of Retail workers' wages did not increase by 104 percent over that time – it grew only 20 percent from 1978 to 2018.

We can look at it from the Retail employers' viewpoint and rather than adjust wages by the cost of



living, adjust them by the revenue employers received, reflecting their margins on sales.<sup>1</sup> This adjusted wage is called the 'real product wage'. Real product wages rose only 41 percent from 1978 to 2017, compared to a 97 percent rise in labour productivity over that period. Despite steady rises in the real product wage between 1999 and 2017, totalling 41 percent, productivity rose almost twice that – 79 percent. There is a large gap between wages and what employers can afford.

### The bigger picture

Labour's share of income in the wider economy tells another story that is worth bearing in mind when thinking about the low wages New Zealand working people receive, not only in the Retail sector.

The final figure compares labour's income share in the whole economy to the OECD median, and those of Denmark and Australia. None of these fell as sharply as New Zealand's in the 1980s, though all had faced similar impacts of a series of 'oil shocks' resulting from war in the Middle East. Oil shortages and rocketing oil prices contributed to



<sup>1</sup> This uses the GDP deflator for the Retail Trade sector, calculated by dividing the income in the sector by its contribution to GDP.

high inflation. Australia's labour share followed the OECD median and though it fell (and has had a sharp fall under recent Australian Government policies) the change was much more gradual. They put in place better wage systems than New Zealand, including maintaining a system of industry collective agreements which remain even today (though in weakened form) in the Modern Award system which underpins most Australian wages and salaries. Even more remarkable was Denmark, whose labour income share did not fall and in fact is on a rising trend. They had the same choice: to cut real wages or to move to a higher skill, higher value, higher wage economy. They made a deliberate decision to do the latter: employers wanted to retain the skills of their workers. They moved away from commodity agricultural production to the advanced economy Denmark has now. It was based on strong institutions of 'social partnership' between unions, employer organisations and government. In 2013, two thirds (67 percent) of its wage and salary earners were union members, and 84 percent were covered by industry collective agreements which set the basis for any enterprise bargaining that occurs.

New Zealand needs to make similar choices if it wishes to get out of its low wage rut and make the best of the changes that will occur with advancing technology, climate change and globalisation. As BERL, the OECD and many countries in northern Europe have found, industry level bargaining, such as through Fair Pay Agreements, must be a major part of that future.

**Bill Rosenberg**

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

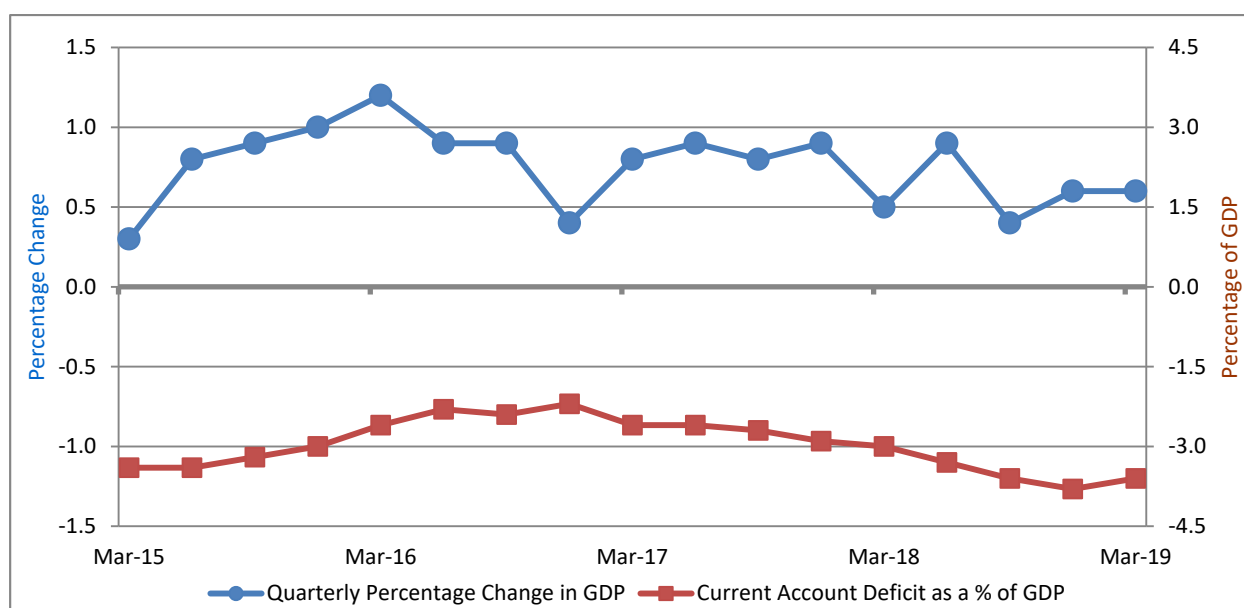
Thanks to Nick Henry who assisted in updating this section.

## Forecast

★ This [NZIER consensus forecast](#) was released on 17 June 2019.

Annual Percentage Change (March Year)	2019/20	2020/21	2021/22
<b>GDP</b>	2.5	2.9	2.6
<b>CPI</b>	2.0	1.9	2.0
<b>Private Sector average hourly wage</b>	3.4	3.2	3.2
<b>Employment</b>	1.7	1.6	1.5
<b>Unemployment rate (% of labour force)</b>	4.2	4.1	4.0

## Economy



★ Growth in New Zealand’s measured economy in the three months to March 2019 was moderate, with [Gross Domestic Product](#) rising by 0.6 percent, the same as the 0.6 percent in the previous



quarter, and up from 0.4 percent in the June quarter. Average growth for the year ended March 2019 was 2.5 percent (and 2.7 percent compared to the same quarter last year). Growth in GDP per person continues to be weak with a rapidly growing population: GDP growth per person was just 0.1 percent in the March quarter seasonally adjusted, down from a 0.2 percent increase in the December 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, rose 0.1 percent over the quarter and rose 0.6 percent over the year.

- ★ I estimate that **labour productivity**, measured by production per hour worked in the economy, stayed almost still, growing 0.1 percent in the year to March compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It fell 4.2 percent in the quarter, seasonally adjusted.
- ★ **Business investment** rose by 1.9 percent compared to the previous quarter, with a 8.0 percent fall in investment in Transport equipment and a 6.4 percent fall in Other Construction investment offset by strong rises in Non-residential buildings (up 9.9 percent). Investment in Land improvements fell 1.0 percent, in Intangible fixed assets fell 0.5 percent and Plant, and in Machinery and equipment fell 0.6 percent. Investment in Residential buildings was up 2.7 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. Comparing the year to March with the previous full year, growth in total investment including housing (Gross Fixed Capital Formation) was 2.5 percent but Business investment grew only 2.1 percent, down from 6.4 percent the previous year, driven by Non-residential buildings (up 7.2 percent), Plant, machinery, and equipment (up 2.6 percent) and Intangible fixed assets (up 2.3 percent) offset by falls in Other construction (down 3.9 percent) and Land improvements (down 1.1 percent) while investment in Transport equipment was unchanged. Residential buildings investment was up 3.5 percent.
- ★ **Household consumption** expenditure grew 0.5 percent in the March quarter in real terms, after a 1.0 percent increase in December and increases of around 1.0 percent in quarters before that apart from a 0.3 percent increase in the March 2018 quarter. Purchases of durable goods (like electrical equipment and furniture) rose 1.4 percent, of non-durable goods (like food and groceries) rose 0.4 percent, and of services rose 0.3 percent. It rose a strong 3.5 percent over the same quarter in the previous year and 3.3 percent comparing the full year to March with the previous year when growth in spending was led by a 3.7 percent increase in purchases of services, followed by a 3.6 percent increase in durable goods purchases and 2.1 percent increase in no-durable goods.
- ★ 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) rose 1.4 percent compared to the same quarter the previous year, and rose 0.4 percent in the most recent quarter.
- ★ **By industry**, the largest contributors to growth in the latest quarter were Construction (up 3.7 percent), Mining (up 9.6 percent), Manufacturing (up 1.4 percent), Health care and social assistance (up 1.7 percent) and Transport, postal and warehousing (up 1.2 percent). The largest fall in activity

was in Agriculture, forestry, and fishing (down 2.3 percent). There were also contractions in Information media and telecommunications (down 0.6 percent), Retail trade and accommodation (down 0.5 percent) and Rental, hiring, and real estate services (down 0.2 percent). Year-on-year, the biggest rises were in Transport, postal and warehousing (up 5.1 percent), Public administration and safety (up 4.5 percent), Wholesale trade (up 3.7 percent), Retail trade and accommodation (up 3.5 percent), Health and Social assistance (up 3.4 percent), Financial and insurance services (up 3.3 percent) and Agriculture, forestry and fishing (up 3.2 percent); only Mining contracted (down 5.9 percent).

- ★ New Zealand recorded a [Current Account](#) deficit of \$2.6 billion in seasonally adjusted terms for the March 2019 quarter, following a \$2.7 billion deficit for the previous quarter. There was a deficit in goods trade (\$1.1 billion, seasonally adjusted) following a \$1.15 billion deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted deficit of \$87 million in goods and services (up from the \$60 million deficit in the previous quarter) including a \$1.0 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) was down a little to \$2.4 billion from \$2.6 billion (seasonal adjustment not available). For the year to March 2019, the current account deficit was \$10.6 billion or 3.6 percent of GDP, down from the \$11.2 billion deficit in the year to December (3.8 percent of GDP). The deficit on investment income was \$10.2 billion for the year.
- ★ The country's [Net International Liabilities](#) were \$164.4 billion at the end of March 2019, down from \$168.4 billion at the end of the previous quarter but significantly up from \$156.2 billion a year before. The March liabilities were equivalent to 55.5 percent of GDP, down from the previous quarter (57.4 percent) and up from 54.8 percent a year before. Gross international liabilities were equivalent to 146.4 percent of GDP, compared to 145.9 percent in the previous quarter and 143.1 percent a year before. Net international liabilities would take 1.96 years of goods and services exports to pay off, down from 1.99 years a year before. However, gross liabilities at \$433.6 billion would take 5.17 years of goods and services exports to pay off. The fall in net liabilities over the quarter was mainly due to rises in the net valuation of net financial derivatives which rose \$3.2 billion. Without the valuation changes, the net liabilities would have been \$169.1 billion. New Zealand's international debt was \$295.7 billion (other than shares; equivalent to 99.8 percent of GDP), of which 30.2 percent is due within 12 months, compared to \$145.4 billion in financial assets (49.1 percent of GDP), leaving a net debt of \$150.2 billion (50.7 percent of GDP). Of the net debt, \$3.6 billion was owed by the government including the Reserve Bank, and \$119.1 billion by the banks (40.2 percent of GDP), which owed \$163.5 billion gross.
- ★ In [international trade in services](#), exports amounted to \$25.2 billion in the year to March 2019, of which over half (\$16.0 billion) was Travel and another \$3.3 billion was Transportation. Services imports were valued at \$20.7 billion, leaving a surplus on services of \$4.5 billion for the year. The largest areas of imported services were \$4.9 billion in Transportation, \$6.7 billion in Travel, \$1.6 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 \$3.5 billion in a variety of Other business services.

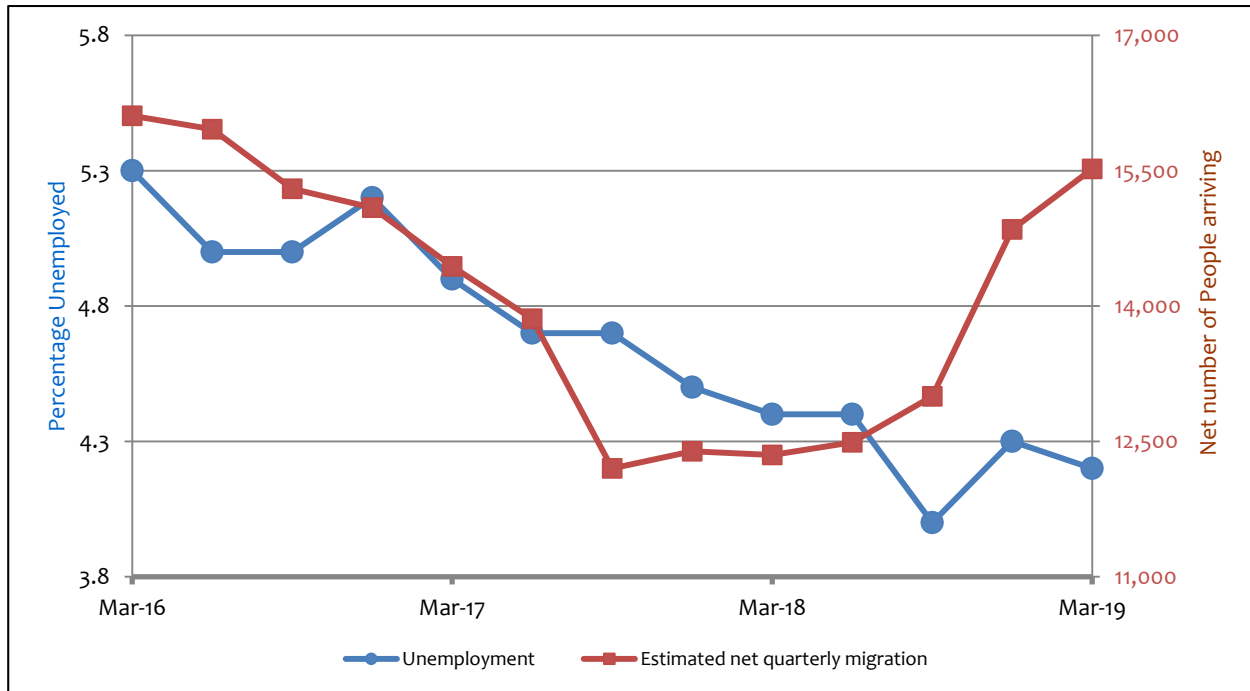
- ★ [Overseas Merchandise Trade](#) for the month of May 2019 saw exports of goods rise in value by 8.5 percent from the same month last year while imports rose 7.6 percent. This contributed to a trade surplus for the month of \$264 million or 4.5 percent of exports. There was a trade deficit for the year of \$5.5 billion or 9.2 percent of exports. In seasonally adjusted terms, exports rose 4.2 percent or \$209 million over the month (after an 8.3 percent fall the previous month) with the increase led by Logs and Wood (up 8.1 percent or \$36 million), Dairy Products (up 2.3 percent or \$31 million), Wine (up 6.2 percent or \$10 million) and Seafood (up 3.1 percent or \$5 million), offset by decreases in Fruit (down 7.7 percent or \$23 million), Meat (down 2.0 percent or \$13 million), Crude Oil (down 38.1 percent or \$35 million, not seasonally adjusted) and Aluminium (down 4.1 percent or \$5 million, not seasonally adjusted). Seasonally adjusted imports rose 1.4 percent or \$74 million on the previous month, leaving a trade deficit of \$249 million following a \$384 million deficit in the previous month. The increase in imports was led by Petroleum (up 18.4 percent or \$112 million, not seasonally adjusted), Mechanical machinery and equipment (up 12.3 percent or \$84 million, not seasonally adjusted) and Optical, Medical and Measuring Equipment (up 6.9 percent or \$11 million) offset by Electrical machinery and equipment (down 10.7 percent or \$50 million) and Plastics (down 7.7 percent or \$17 million). In the year to May, 25.9 percent of New Zealand’s exports went to China, 15.1 percent to Australia, 9.6 percent to the US, and 62.3 percent went to the top six countries buying New Zealand exports. This compares with 22.8 percent going to China in the previous year, and 60.2 percent going to the top six destinations. Over the same period, 20.0 percent of New Zealand’s imports came from China (compared to 19.1 percent in the previous year), 11.4 percent from Australia, 9.9 percent from the US, and 58.4 percent from the top six countries selling to New Zealand, compared to 57.2 percent a year before. There were trade surpluses with China (\$2.43 billion) and Australia (\$1.55 billion) but deficits with most other major trading partners.
  
- The [Retail Trade Survey](#) for the three months to March 2019 showed retail sales rose 3.3 percent by volume and 3.7 percent by value compared with the same quarter a year ago. They rose 0.7 percent by volume and 0.2 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Non-store and commission-based retailing (which includes online sales - up 7.0 percent), Furniture, floor coverings, houseware, textiles (up 3.1 percent), Department Stores (up 2.9 percent), Liquor (up 2.8 percent), Hardware, building, and garden supplies (up 2.8 percent), Specialised Food (up 2.4 percent), and Recreational Goods (up 2.3 percent), offset by decreases in Pharmaceutical and other store-based retailing (down 8.5 percent), Fuel (down 2.8 percent), Electrical and electronic goods (down 2.2 percent), and Accommodation (down 1.1 percent). By far the largest category, Supermarket and grocery stores, rose 1.1 percent.
  
- ★ The [Performance of Manufacturing Index](#) for May 2019 was 50.2, down from 52.7 in the previous month. The employment sub-index was at 48.6, down from 51.4 in the previous month.
  
- ★ The [Performance of Services Index](#) for April 2019 was 53.6, up from 52.0 the previous month. The employment sub-index was 50.6, up from 48.4 the previous month.
  
- ★ On 26 June 2019, the Reserve Bank kept the [Official Cash Rate \(OCR\)](#) unchanged at 1.5 percent, maintaining the record low level set in May 2019. The 26 June release indicated that further lowering of the OCR may be needed in future to respond to “a weaker global economic

*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.*

outlook and risk of ongoing subdued domestic growth". The Reserve Bank noted slowing domestic growth, with strong growth in construction offset by slowing growth in service industries. "Softer house prices and subdued business sentiment continue to dampen domestic spending" but "We expect low interest rates and increased government spending to support a lift in economic growth and employment." The meeting of the Monetary Policy Committee repeated its previous opinion that "employment is broadly at its maximum sustainable level", but also noted that "subdued wage growth" is not responding to "capacity pressure in the labour market": "The members discussed the subdued nominal wage growth in the private sector and the apparent disconnect from indicators of capacity pressure in the labour market. The Committee discussed the possibility of this relationship re-establishing. Conversely, the continuing absence of wage pressure could indicate that there is still spare capacity in the labour market. Some members also noted that reduced migrant inflows could see wage pressure increase in some sectors." The next OCR announcement is on 7 August and will include a Monetary Policy Statement.

- ★ According to [REINZ](#), over the year to May the national median house price rose \$18,000 or 3.2 percent to \$578,000 and REINZ's house price index rose 1.8 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 fell 0.5 percent seasonally adjusted while the house price index rose 0.2 percent. In Auckland over the year the median price was up 1.2 percent to \$860,000 while the house price index fell 3.3 percent. Over the month, Auckland's median price was up 0.9 percent seasonally adjusted, and the house price index rose 0.5% percent. Excluding Auckland, over the year the national median price rose \$33,000 to \$488,000 or 7.2 percent while the house price index rose 6.5 percent. Over the month the median price excluding Auckland was up 1.0 percent seasonally adjusted, and the house price index was unchanged. There was a record median price in Gisborne (up 54.4 percent over the year to \$440,000). Median prices rose over the year in 11 of REINZ's 14 regions, with the fastest rise after Gisborne being in Southland (up 16.7 percent to \$280,000). The biggest fall in median prices over the year was in the West Coast (down 14.0 percent to \$185,000) with Northland the only other fall, down 1.9 percent to \$465,000. Seasonally adjusted median prices also fell over the month in 8 of 14 regions, with the steepest falls in West Coast (down 11.4 percent), Southland (down 6.2 percent) and Northland (down 5.9 percent), while prices rose over the month by the highest rate in Gisborne (up 17.8 percent) followed by Otago (up 4.2 percent). Sales rose in 11 of the 14 regions over the month, seasonally adjusted, while over the year, sales fell in 6 of the regions, with a national fall of 7.8 percent and falls of 21.8 percent in Auckland and 32.3 percent on the West Coast.

## 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 March 2019 quarter fell to 4.2 percent or 116,000 people, compared to 4.3 percent three months before (120,000 people). If it were the 3.3 percent it was in December 2007, 24,000 more

people would have jobs. The seasonally adjusted female unemployment rate rose to 4.5 percent from 4.2 percent three months before, higher than for men (3.9 percent) whose unemployment rate fell from 4.4 percent. Māori unemployment fell from 9.6 percent a year before to 8.6 percent in March 2019, while Pacific people's unemployment rose from 8.3 percent to 9.0 percent over the year. Compared to OECD unemployment rates, New Zealand remained at 14<sup>th</sup> equal lowest (out of 35 countries). New Zealand's employment rate for 15-64 year olds fell from 3<sup>rd</sup> to 6<sup>th</sup> highest for the OECD at 77.4 percent.

- **Youth unemployment** for 15-19 year olds was 20.5 percent in March 2019, down from 22.4 percent three months before, and from 19.0 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 March 2019, the unemployment rate was 25.3 percent, down from 25.7 percent a year before. For 15-19 year old Pacific Peoples it was 30.3 percent, up from 16.9 percent a year before. For 20-24 year olds, youth unemployment was 7.9 percent, down from 8.2 percent three months before, and down from 8.2 percent a year before. For Māori 20-24 year olds the unemployment rate was 11.5 percent, down from 12.9 percent a year before. For 20-24 year old Pacific Peoples it was 10.8 percent, down from 14.2 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 10.1 percent, down from 11.3 percent three months before and up from 9.8 percent a year before. For Māori 15-19 year olds the rate was 15.9 percent, down from 16.4 percent a year before and for Pacific Peoples it was 13.4 percent, down from 14.1 percent a year before. For 20-24 year olds the NEET rate was 16.0 percent, down from 16.4 percent three months before and up from 14.8 percent a year before. For Māori 20-24 year olds the NEET rate was 26.7 percent, down from 26.8 percent a year before, and for Pacific Peoples it was 23.6 percent, down from 24.7 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (14.6 percent) than those not in education (11.1 percent). There were 88,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, down from 94,000 three months before, and up from 84,000 a year before.
- By **region**, in March 2019, in the North Island, Northland had the worst regional unemployment rate at 7.1 percent, up from 5.8 percent a year before, and Manawatu/Wanganui was next at 6.5 percent unemployment compared to 6.4 percent a year before. All other North Island regions had unemployment rates at or under 5.5 percent, with Wellington the lowest at 3.7 percent (down from 4.8 percent a year before) and all but Northland, Manawatu/Wanganui, Gisborne (5.4 percent up from 5.1 percent) and Taranaki (5.5 up from 5.1) with lower rates than a year before. All South Island regions had unemployment at or below 4 percent with average unemployment among the South Island regions being 3.5 percent compared to 5.2 percent in the North Island. In Tasman/Nelson/Marlborough/ West Coast unemployment was 3.3 percent, down from 3.6 percent a year before, in Canterbury it was 4.0 percent, up from 3.5 percent a year before, in Otago it was 3.3 percent, down from 4.7 percent a year before, and in Southland 3.4 percent, up from 2.9 percent a year before.
- There were 33,700 unemployed people in December 2018 who had been **out of work for more than 6 months** compared to 35,800 a year before. This is 27.4 percent of the unemployed compared to 28.1 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 11.1 percent of the unemployed compared to 12.7 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 March 2019 quarter there were a total of 324,000 people looking for work classed as “underutilised”, or 11.3 percent of the labour force extended to include these people, in seasonally adjusted terms. Of them, 102,000 were underemployed, 116,000 were officially unemployed, and 106,000 were additional jobless people looking for work. The 11.6 percent underutilisation rate is down on the previous quarter (seasonally adjusted 12.1 percent) and down from 11.9 percent a year before. It is higher for women at 13.7 percent than for men (9.0 percent).
- The number recorded as **employed** fell by 4,000 over the three months to March 2019 (seasonally adjusted). It rose by 38,000 over the year. The employment rate fell to 67.5 percent over the three months from 67.8 percent. It was 62.8 percent for women and 72.3 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 slightly down at 70.4 percent compared to 70.9 percent three months before.
- **By industry**, the actual increase in employment of 20,600 in the three months to the March 2019 quarter (not seasonally adjusted) was made up of both gains and losses. The largest gains were of 20,600 in Professional, scientific, technical, administrative, and support services, 5,900 in Financial and insurance services, and 4,200 in Rental, hiring, and real estate services. The largest losses were 5,200 in Education and Training, 3,500 in Transport, postal and warehousing, and 3,000 in Retail trade, accommodation and food services. Over the year, the biggest contributors to the 38,200 additional jobs were 21,500 in Professional, scientific, technical, administrative, and support services, 6,200 in Health care and social assistance and 6,000 in Financial and insurance services. The largest losses were 16,500 in Education, 13,900 in Manufacturing, and 5,000 in Construction.
- In the March 2019 quarter, total **union membership** was estimated at 404,500, a 0.7 percent fall from 407,300 in the previous quarter and down 0.9 percent from 408,200 a year before. The membership is 18.7 percent of employees compared to 18.8 percent three months before and 19.1 percent a year before. Women make up 58.6 percent of the membership compared to being 49.6 percent of all employees. As a result, the proportion of female employees who are in unions is higher than for males: 22.0 percent compared to 15.3 percent. The rate of membership for women workers was up 0.9 percent over the year, compared to a decrease for men of 3.3 percent, with one factor being the impact of pay equity settlements. The membership changes were not evenly spread across age groups: the membership of 15-24 year olds fell 6.5 percent in the year but rose 10.5 percent in the quarter, 25-34 year olds rose 11.1 percent in the year but fell 3.4 percent in the quarter, 35-44 year olds rose 6.3 percent in the year but fell 0.5 percent in the quarter, 45-54 year olds fell 12.1 percent in the year and 1.3 percent in the quarter, 55-64 year olds fell 2.3 percent in the year and 1.6 percent in the quarter, and 65+ year olds rose 0.8 percent in the year and 2.4 percent in the quarter. Union membership growth mainly came from Public Administration and Safety, which increased 5,300 or 10 percent over the year, and Retail Trade up 2,400 or 14 percent. , Agriculture Forestry and Fishing shows as more than doubling from 1,900 to 4,700 over the year, but with such small numbers



it is not yet clear whether this is a real trend or just statistical variation. Education and training fell 5,300 or 6 percent, and Health Care and Social Assistance fell 1,800 or 2 percent while Manufacturing shows as falling sharply by 10,600 or 22 percent over the year to 39,300, which again is likely to be in part statistical variation. 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 March 2019 quarter, total **collective employment agreement** coverage was estimated at 406,500 employees, which makes 18.7 percent of employees who said their employment agreement was a collective compared to 19.1 percent three months before and 19.0 percent (406,200) a year before. An estimated 69.5 percent (1,507,700) said they were on an individual agreement compared to 69.3 percent three months before and 68.1 percent a year before, and 5.2 percent or 112,300 said they had no agreement (which is illegal), compared to 5.5 percent three months before and 6.3 percent a year before. A further 6.5 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 15.9 percent for men and 21.6 percent for women. All age groups except 45-54 year olds and 55-64 year olds rose in membership of collective agreements over the year, and those age groups plus the over 65s fell during the quarter. Those aged 15-24 rose 1.3 percent in the year and 0.9 percent in the quarter, 25-34 years rose 12.5 percent in the year and 0.7 percent in the quarter, 35-44 year olds rose 7.7 percent in the year and 1.1 percent in the quarter, 45-54 year olds fell 9.6 percent in the year and 2.6 percent in the quarter, 55-64 year olds fell 6.8 percent in the year and 6.3 percent in the quarter, and members aged 65+ rose 1.3 percent in the year but fell 4.4 percent in the quarter. Over the year, density rose for all age groups under 45 years, but fell for all age groups over 45. By industry, collective membership grew over the year by 4,100 or 8 percent in Public Administration and Safety, and by 2,700 or 11 percent in Retail Services. Education fell 2,800 or 3 percent, Health Care and Social Assistance fell 3,400 or 4 percent, and Manufacturing shows as falling by 8,000 or 17 percent. Other industries had a mix of increases and decreases (though they are unlikely to be statistically significant).
- By **employment relationship**, in the March 2019 quarter, 91.0 percent of employees (1,973,400) reported they were permanent, 4.6 percent casual (100,500), 2.4 percent fixed term (51,300), 1.0 percent seasonal (20,800), and 0.4 percent employed through a "temporary agency" (9,100). The proportion reporting they were permanent was up from 89.7 percent (1,942,200) three months before and from 90.2 percent (1,930,500) a year before. Women were slightly less likely to be permanent employees: 90.1 percent of women were permanent compared to 91.9 percent of men. Instead, women were more likely to be casual (5.3 percent of them compared to 4.0 percent of men) or fixed term (2.7 percent of women compared to 2.0 percent of men). However more men were in seasonal work than women – 1.2 percent of men compared to 0.7 percent of women. Of the temp agency employees, 3,200 were men and 5,900 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, over the almost three 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 March 2019 down to 51,300 though there was a sharp upturn in the last quarter of 2018. The number of Temporary Agency employees has increased in the same period from 6,600 to 9,100, 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 March 2019 quarter, 23.4 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 33.7 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 16.2 percent had been in their job for at least five but less than ten years, and 25.1 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, 26.8 percent of men had been in their jobs for more than 10 years, but only 23.3 percent of women. Age is a significant factor as would be expected: 55.6 percent of people aged 15 to 24 had been in their jobs for less than a year, and 28.8 percent of 25-34 year olds, but only 14.7 percent of 45-54 year olds and 9.3 percent of 55-64 year olds. Small differences may not be statistically significant.
- The [Ministry of Social Development](#) reports that at the end of March 2019 there were 131,720 working age people on the Jobseeker benefit, 12,965 more than a year before but 2,328 fewer than three months before. At that time, 72,185 were classified as 'Work Ready', and 59,535 were classified as 'Health Condition or Disability'. A total of 286,450 were on 'main' benefits, 13,063 more than a year before, with numbers of all other than those on Jobseeker Support relatively stable: Sole Parent Support benefits were down just 6, Supported Living Payments were up 30 and Other Main Benefits were up 74. There were 12,895 fewer on main benefits than three months earlier, mainly because of the seasonal fall in "Jobseeker Support Student Hardship" benefits, which rose to 8,934 at the end of December and then fell back to 94 at by the end of March, but also helped by the reduction in numbers on Jobseeker benefits and 1,046 fewer on Sole Parent Support. Of the 48,354 benefits cancelled during the three months to March, 20,511 or 42.4 percent of the people obtained work, 11.6 percent transferred to another benefit and 13.6 percent became full time students. A further 2,517 (5.2 percent) left on their 52 week reapplication or annual review. A total of 10,190 suffered sanctions (down 30.7 percent on a year before), the majority (8,993) on a Jobseeker benefit. Of the people sanctioned, 47.0 percent were Māori, though only 36.3 percent of working-age benefit recipients were Māori.

### ★ [International Migration](#)

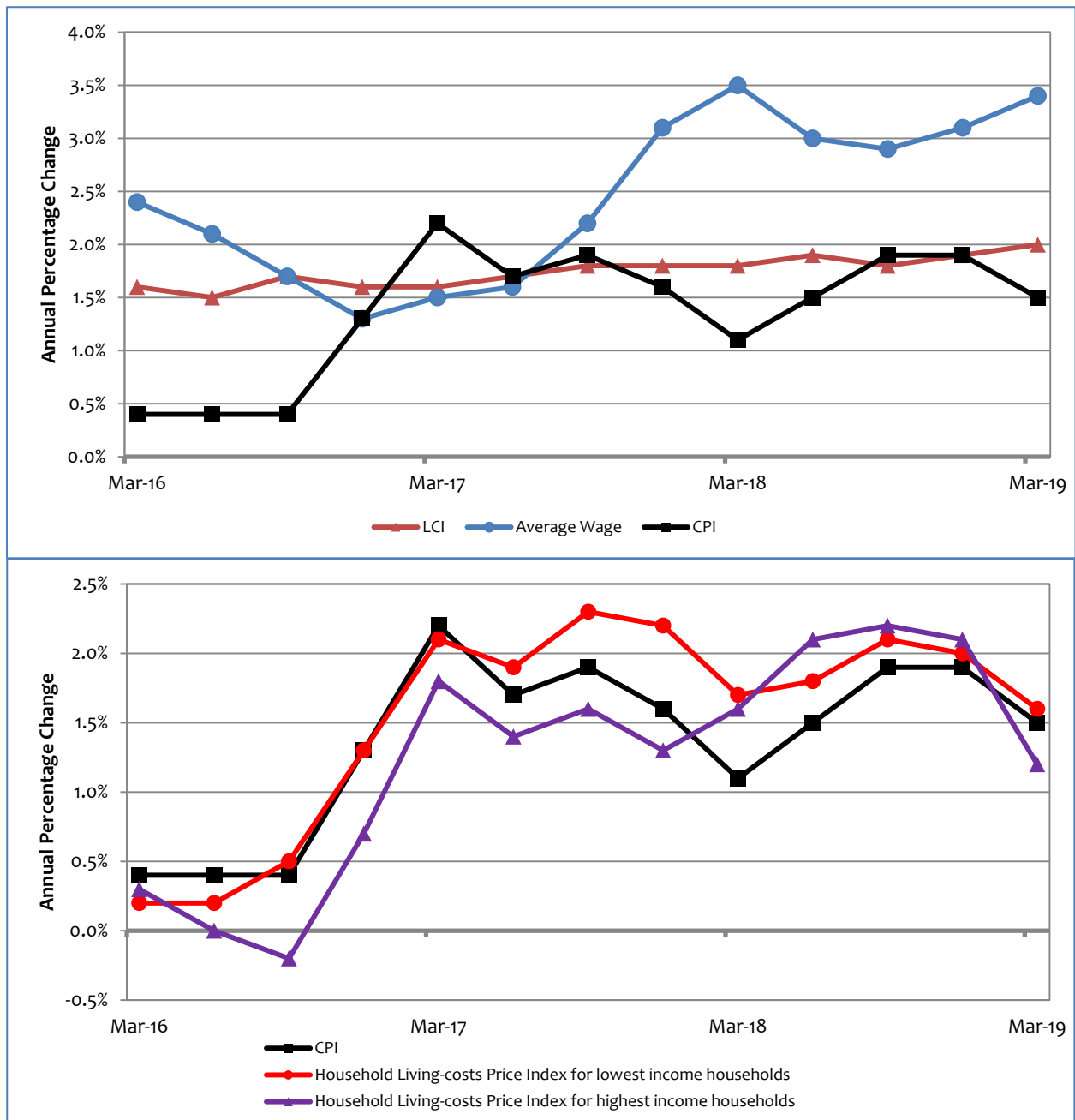
There were a provisionally estimated 11,980 permanent and long-term arrivals to New Zealand in April 2019 and 7,110 departures in seasonally adjusted terms, a net gain of 4,870 which was a small increase on the (revised) 4,630 estimated for the previous month. There was a seasonally adjusted net loss of 400 New Zealand citizens, compared to a loss of 620 the previous month, and a net gain of 5,270 other citizens, compared to 5,250 the month before. There was an estimated actual net gain of 55,834 migrants in the year to April, up from 50,163 in the year to April 2018. In April, 9.7 percent of the arrivals had residence visas, 17.8 percent student visas, 22.1 percent work visas, and 19.1 percent visitors. A further 30.5 percent were New Zealand or Australian citizens.

*In November 2018, there was a significant change in how migration has been estimated by Statistics New Zealand. It changed from being based on intentions shown on arrival and departure cards to being based on whether 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.*

- [Job Vacancies Online](#) for the three months to March 2019 showed the seasonally adjusted number of job vacancies rose by 1.1 percent in the quarter and rose 5.6 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 0.8 percent while semi-skilled vacancies rose 3.1 percent and unskilled

vacancies fell 1.8 percent, while over the year, highly skilled vacancies rose 6.7 percent while semi-skilled vacancies rose 4.9 percent and unskilled vacancies rose 4.8 percent. Over the quarter, vacancies in Auckland were up 0.7 percent, Bay of Plenty 3.6 percent, Gisborne/Hawke's Bay 1.7 percent, Marlborough/Nelson-Tasman/West Coast 1.3 percent, Otago/Southland 1.5 percent, Waikato 0.6 percent, and Wellington 4.7 percent, while vacancies in Canterbury were down 0.6 percent, Manawatu-Whanganui/Taranaki down 0.1 percent, and Northland down 3.5 percent. By industry for the quarter, vacancies rose fastest in IT (up 5.5 percent) and Hospitality (up 3.3 percent), while they fell 6.1 percent in Primary industries and 1.7 percent in Sales. Over the year IT also leads (up 16.1 percent) followed by Health (11.9 percent), Hospitality (5.6 percent) and Education (5.2 percent). By occupation, vacancies for Managers and for Technicians and Trades both rose by 3.0 percent over the quarter, followed by Community and Personal services up by 2.7 percent, while Sales vacancies fell 2.0 percent and Machinery drivers were down 2.3 percent. Over the year, the fastest growing vacancies were for and Community and Personal services (up 9.6 percent), followed by Professionals (up 8.2 percent), Clerical and Administration (up 7.4 percent) and Managers (up 4.9 percent).

## Wages and prices



- The [Labour Cost Index](#) (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to March 2019 and increased 2.0 percent in the year. The annual increase was slightly higher than the 1.5 percent increase in the CPI. The LCI increased 0.5 percent in the public sector and 0.3 percent in the private sector in the three months. Over the year it rose 1.9 percent in the public sector and 2.0 percent in the private sector. Statistics New Zealand reports that “Some collective agreements pushed up annual wage inflation. For example, the nurses’ collective agreement, which was signed in early August 2018, continues to push up wages. Other collective agreements in the past year included that for the New Zealand Police, as well as agreements for welfare and social workers.”. During the year, 42 percent of jobs surveyed did not receive a pay rise, and 44 percent of private sector jobs got no rise. For the 57 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.8 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 2.4 percent and in the private sector 2.9 percent; the average increase in the public sector was 3.2 percent and in the private sector 3.9 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 52 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.

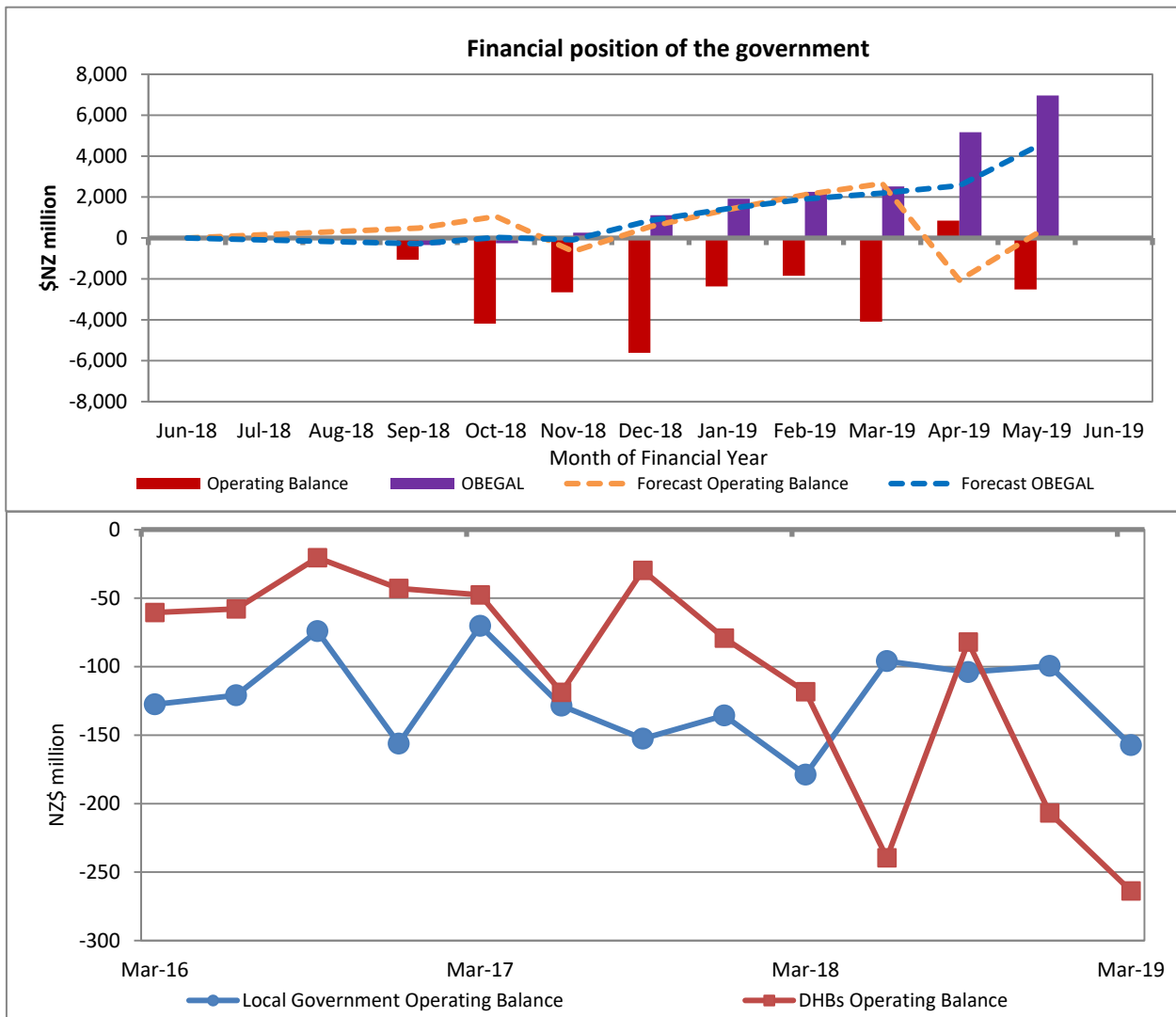
- The [Quarterly Employment Survey](#) for the three months to March 2019 found the average hourly wage for ordinary-time work was \$32.00, up 1.2 percent on the previous quarter and up 3.4 percent over the year, significantly more than the 1.5 percent rise in the CPI. Female workers (at \$29.82) earned 11.9 percent less than male workers (at \$33.86) for ordinary time hourly earnings. This pay deficit is the same as it was in March 2018, but has fallen slightly from 12.4 percent two years ago in March 2017. The average ordinary-time wage was \$30.00 in the private sector, up 1.1 percent in the quarter and 3.7 percent in the year. In the public sector the average ordinary-time wage was \$40.33 which was up 2.0 percent in the quarter and up 2.8 percent in the year. Average total hourly wages (including overtime) ranged from \$20.71 in Accommodation and food services and \$22.76 in Retail trade, to \$45.76 in Finance and insurance services, and \$40.91 in Electricity, gas, water and waste services. In Accommodation and food services, 55.1 percent of employee jobs were part time, and in Health care and social assistance 41.6 percent were part time; in Retail trade 39.2 percent were part time; 34.1 percent were also part time in Arts, recreation and other services; 25.5 percent in Education and training; 25.8 percent in Rental, hiring, and real estate services; and 22.5 percent in Professional, scientific, technical, administration and support services. Together these seven industries made up 81.2 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 March 2019 quarter compared with the December 2018 quarter. It was steady in seasonally adjusted terms. It increased 1.5 percent in the year to March, down from 1.9 percent in the year to December. For the quarter, the largest single upward influence was Alcohol and Tobacco, which rose 4.7 percent, most of which came from a 9 percent rise in Cigarettes and Tobacco prices largely due to the annual increase in excise duties. Next came Food which rose 1.2 percent, driven by a 5.4 percent increase in Fruit and Vegetable prices. Housing and household utilities (up 0.6 percent) continued to be a significant factor, mainly due to rising rents (up 0.6 percent) and the cost of new housing (up 0.7 percent, varying from 0.1 percent in Wellington to 0.3 percent in Canterbury and 0.8 percent in Auckland). Increases in housing costs also came from a further increase of 1.8 percent in house insurance and 0.1 percent in contents insurance over the quarter, though mortgage interest rates (not in the CPI) continue to fall – by 1.6 percent (note – not 1.6 percentage points) in the quarter according to Statistics New Zealand. There were also some significant negative contributions bringing down the rise in the overall index. Transport costs fell 3.7 percent from the previous quarter, largely driven by a 7 percent decrease in petrol prices and an 11.8 percent drop in international airfares. Over the year, Housing and household utilities, Alcohol and Tobacco, and Food were the three largest contributors to the rise, responsible for 51.9 percent, 21.4 percent and 16.3 percent of the rise respectively. In Housing and household utilities, which rose 3.0 percent overall, rents rose 2.4 percent, purchase of new housing rose 3.9 percent, property maintenance rose 2.2 percent, property rates and related services rose 4.6

percent, and household energy rose 2.7 percent. In addition, house insurance rose 13.1 percent and contents insurance rose 2.4 percent though mortgage interest fell 3.4 percent. In Food, which rose 1.3 percent overall, the biggest impact was an increase in prices for restaurant and ready-to-eat meals, up by 2.9 percent, followed by grocery food prices, up by 1.1 percent, and the cost of meat, poultry, and fish up by 2.1 percent. Rents rose fastest in Wellington (up 3.3 percent for the year) and slowest in Canterbury (up 0.6 percent for the year). In seasonally adjusted terms, CPI showed no increase over the last three months, Food rose 0.2 percent, Alcoholic beverages and tobacco rose 1.6 percent, Clothing and footwear rose 0.4 percent, Housing and household utilities rose 0.8 percent, Communications fell 0.9 percent, Recreation and culture fell 0.3 percent, and Education rose 0.8 percent. Over the year, in Auckland consumer prices rose 1.2 percent, in Wellington they rose 1.3 percent and they rose 1.6 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 1.7 percent and prices rose 1.8 percent in the rest of the South Island.

- The [Household Living-costs Price Indexes](#) (HLPIs) for the year to March 2019 showed a return to a trend of lower income households facing the highest increases in living costs. The lowest income households experienced a 1.6 percent increase in living costs over the year while the highest income households saw an increase of only 1.2 percent (compared to rises of 2.0 percent and 2.1 percent respectively in the year to December). By expenditure, the lowest spending households had their living costs increase by 1.7 percent over the year while the highest spending households had an increase of 1.1 percent. Over the year, the All-households HLPI rose 1.4 percent, the Beneficiary households index rose 1.8 percent, the Māori households index rose 1.4 percent, and the Superannuitant households index rose 1.8 percent. By income quintile, the index for the lowest income households (quintile 1) rose 1.6 percent, quintile 2 rose 1.4 percent, quintile 3 rose 1.2 percent, quintile 4 rose 1.2 percent, and quintile 5 (the highest income) rose 1.2 percent. Ranking households by expenditure quintile showed a similar pattern, as the costs of the lowest spending quintile (quintile 1) rose by 1.7 percent, quintile 2 rose by 1.6 percent, quintile 3 rose by 1.3 percent, quintile 4 rose by 1.2 percent, and quintile 5 (the highest spending) rose by 1.1 percent. Over the quarter, the All-households HLPI rose by 0.1 percent, the Beneficiary households index rose 0.6 percent, the Māori households index rose 0.4 percent, and the Superannuitant households index rose 0.3 percent. By income quintile, over the quarter the index for the lowest income households (quintile 1) rose 0.3 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.1 percent, quintile 4 rose 0.0 percent, and quintile 5 rose 0.0 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.5 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.1 percent, quintile 4 fell 0.2 percent, and quintile 5 fell 0.2 percent.
- ★ The [Food Price Index](#) in the month of May 2019 rose 0.7 percent in actual terms and rose 0.4 percent in seasonally adjusted terms. Food prices rose 1.7 percent in the year to April 2019. Compared with the previous month, fruit and vegetable prices rose 0.8 percent (and rose 0.7 percent seasonally adjusted); meat, poultry, and fish rose 1.2 percent; grocery food prices rose 0.2 percent (and were up 0.4 percent seasonally adjusted); non-alcoholic beverage prices rose 1.4 percent; and restaurant meals and ready-to-eat food prices rose 0.3 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)

*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.*

## Public Sector



★ According to Treasury’s [Financial Statements of the Government of New Zealand](#) for the eleven months to 31 May, core Crown tax revenue was \$2.2 billion (2.8 percent) higher than forecast in the May Budget Economic and Fiscal Update (BEFU 2019). Treasury commented on this large variance saying it is “primarily a result of underlying strength in the tax take and changes in assumptions used to value the Government’s long-term liabilities” and is likely to persist to the end of the financial year (30 June). IRD’s change to a new system (“START”) recognises revenue more smoothly throughout the year, particularly for large corporate taxpayers, and so has made significant changes to the estimates of revenue that Treasury uses. Tax revenue was higher mainly because “other persons tax” (mainly self-employed) was \$0.9 billion higher than expected due to higher incomes and the change to the IRD system; corporate tax was \$0.7 billion above forecast “owing to stronger-than-forecast taxable corporate profits and higher-than-expected Portfolio Investment Entities profits”; and GST was \$0.3 billion above forecast because of changes in IRD’s estimating system and “stronger-than-expected residential investment”. Overall core Crown revenue was \$2.4 billion or 2.8 percent above forecast. Core Crown expenses were \$237 million (0.3 percent) below forecast. The resulting \$7.0 billion surplus in the Operating Balance before Gains and Losses (OBEGAL) was \$2.5 billion more than forecast as a result of the higher than expected tax revenue.. Meanwhile the Operating Balance, a \$2.5 billion deficit, was \$2.7 billion worse than the forecast \$0.2 billion surplus. This was driven by



net losses of \$9.7 billion “largely due to actuarial losses on the ACC liability, as a result of a change in methodology in the calculation of risk-free discount rates and inflation assumptions. This change in methodology is a result of the three yearly review completed regarding how the Treasury set the risk free discount rates to be used by Government reporting entities in their reporting to the Treasury.” Net core Crown debt at 19.3 percent (below the Government’s 20 percent debt target, worth \$57.0 billion) was \$1.4 billion below forecast. Gross debt at \$84.7 billion (28.6 percent of GDP) was \$1.3 billion above forecast, but “\$0.9 billion of this related to movement in the value of derivatives and \$0.5 billion due to unsettled trades were settled in the first week of June 2019. Both of these also impact financial assets, therefore it is neutral on net core Crown debt”. The Crown’s net worth in financial terms was \$2.7 billion lower than forecast at \$127.7 billion. The above debt figures are for the Core Crown; total debt was \$111.8 billion, \$0.1 billion (0.1 percent) lower than forecast.

★ [District Health Boards](#) had 606 fewer full time equivalent staff than planned at the end of March 2019 (67,001 compared to 67,607 planned). Only Nursing Personnel had more staff (472) than planned, but these were offset by shortfalls in Medical Personnel (doctors) who were 223 fewer than planned, Allied Health Personnel (501 short), Management/Administration staff (253 short), and Support Personnel (100 short). Average costs per full time equivalent staff were higher than plan (\$99,700 compared to \$98,200 planned) and the same was true in each of the staff categories. The DHBs had accumulated combined deficits of \$263.7 million in the nine months to March 2019. This is \$55.8 million worse than their plans, which class a total \$341.2 million of the deficits as “structural” over the full year to 30 June 2019. The Funder arms were in surplus by \$112.1 million, \$51.7 million more than the \$60.4 million surplus planned, and Provider arms (largely their hospitals) were in deficit by \$379.6 million, \$110.6 million worse than planned. The Northern region provider arm was \$34.8 million behind plan with a deficit of \$95.6 million and all four DHBs in deficit including Auckland with a \$51.8 million deficit. The Midland region was \$32.2 million behind plan with a deficit of \$136.5 million and all of the five DHBs in deficit including Waikato with a deficit of \$80.7 million. Central region was \$25.5 million behind plan, with a combined \$71.6 million deficit and all of the six DHBs in deficit including Capital and Coast with a \$26.7 million deficit. The Southern Region was 18.1 million behind plan with a \$74.8 million deficit and all five DHBs in deficit, with Canterbury showing a \$31.9 million deficit and Southern \$28.7 million. Overall, only South Canterbury out of the 20 DHBs was in surplus and only four were ahead of plan. The DHB furthest ahead of plan was Counties Manukau by \$6.4 million though with a deficit of \$30.4 million, and Auckland was furthest behind, by \$13.1 million with a deficit of \$9.0 million. Capital expenditure across all DHBs was \$200.1 million behind plan with \$289.1 million spent out of \$489.2 million planned.

★ [Local Government](#) in the March 2019 quarter recorded a 0.7 percent (\$18.5 million) rise in operating income in seasonally adjusted terms and a 2.8 percent rise in operating expenditure (\$76.4 million) including a 0.4 percent rise in employee costs (up \$2.4 million) compared to the previous quarter. This resulted in an operating deficit of \$157.3 million in the quarter, compared with a deficit of \$99.5 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.

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## Notes

This bulletin is available online at <http://www.union.org.nz/economicbulletin211>. For further information contact [Bill Rosenberg](#).