



NEW ZEALAND COUNCIL OF TRADE UNIONS  
Te Kauae Kaimahi

# CTU Monthly Economic Bulletin

No. 220 (July 2020)

## The Pay Equity edition

### Summary

Discussion of various aspects of the gender and ethnic wage and pay gap including the importance of early childhood education and the need for pay transparency.

Economic indicators for July show plateauing Jobseeker and Covid Income Relief payment recipients albeit from a higher base than this time last year.

House, bond and share markets continue to increase in value ostensibly due to significant levels of quantitative easing.

Last week in the dead of night – just before midnight on Thursday - the Government passed the Equal Pay Amendment Act. This Act set out to improve the process for women in occupations that have been economically disadvantaged compared to work of equal value done by men.

As well as being a gender equity issue it is also an economic and wellbeing issue as households with the main earner being female are between two and three times more likely to be in poverty than those with the main earner being male.<sup>1</sup>

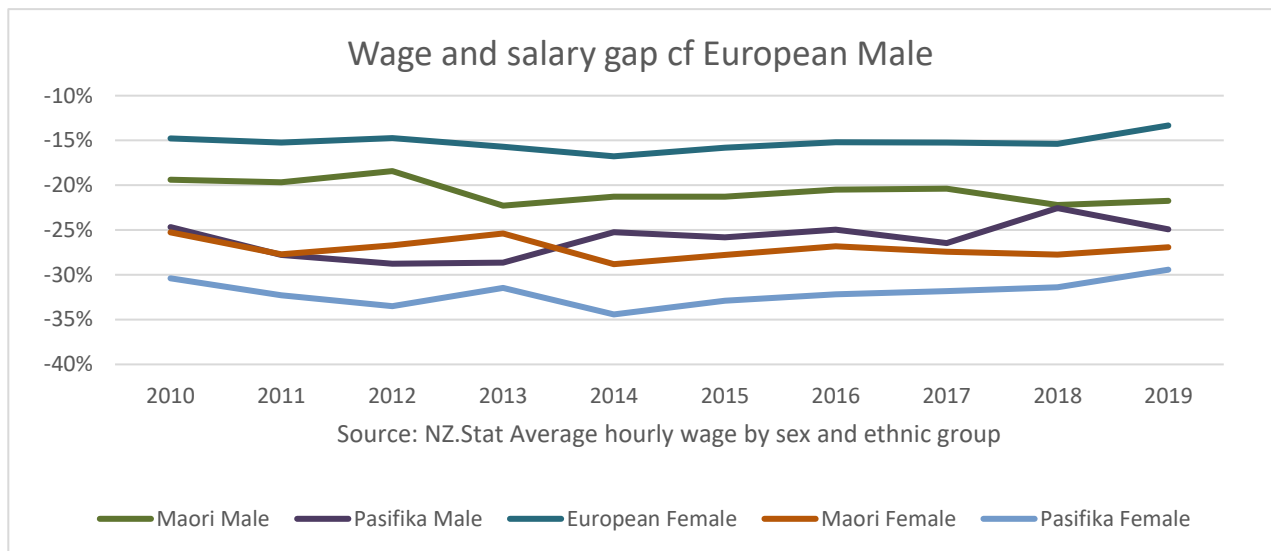
**Table 9. Gender of main earner and in-work poverty rate**

	Main earner: <i>male</i> In-work poverty rate	Main earner: <i>female</i> In-work poverty rate	Share of households with female main earner
Couple without children	2.0%	6.6%	37.1%
Couple with child(ren)	3.0%	12.3%	24.2%
One parent with child(ren)	7.8%	13.3%	73.3%
Two or more family household	5.9%	11.2%	46.8%
One-person household	5.7%	7.1%	52.6%
Other multi-person household	8.6%	13.7%	44.3%
<b>Total</b>	<b>3.7%</b>	<b>10.0%</b>	<b>39.4%</b>

Source: IDI 2019. Notes: Working status and in-work poverty rate as defined in Section 3 (average in-work poverty rate of 7.0 percent for the sample of 725,313 working households).

<sup>1</sup> [https://www.hrc.co.nz/files/8215/7462/2882/In-Work\\_Poverty\\_Report\\_2019.pdf](https://www.hrc.co.nz/files/8215/7462/2882/In-Work_Poverty_Report_2019.pdf)

My own view on the structural gender pay gap is that it is quite understandable in a world where arguably the most important work of our society – producing, feeding, and raising the next generation – has a market price of zero. As this work has historically been done by women it is unsurprising that unconscious bias - or discrimination or sexism - means that the market left to its own devices will not value the paid work undertaken by women as highly as it does comparable work done by men.



With race, researchers at the AUT have found [higher levels of racism in the workplace](#) in New Zealand than in comparable countries. The graphs very clearly show the intersectional nature of the wage gaps. Race plays an equivalent or – factoring in self-employment – potentially higher impact than gender.<sup>2</sup>

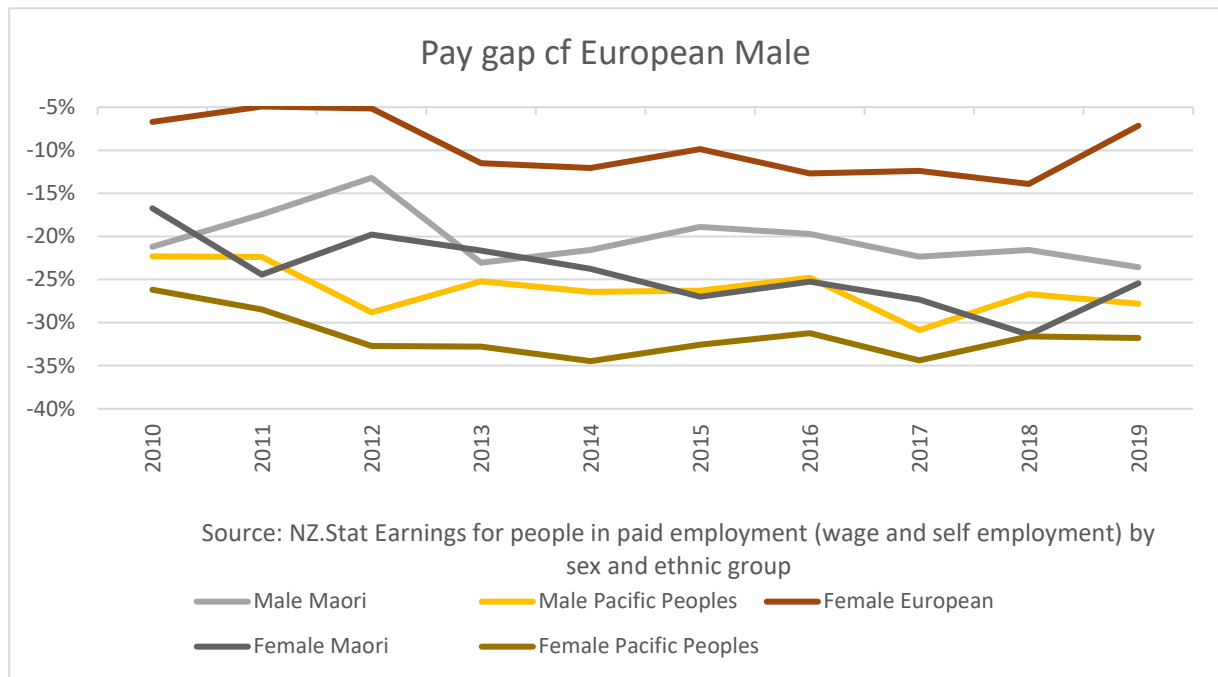
And yes, there is a structural pay gap – it is not all occupation or education.

This was very clearly shown by Dr Isabelle Sin and others with the [Specialist Doctors](#) and [also more generally for other occupations](#). In fact recently Dr Charlotte Chambers outlined the [structural challenges faced by the women specialist doctors](#) which could easily be extended to most professional women's experience in the workplace – albeit a group that inherently has significant privilege.

---

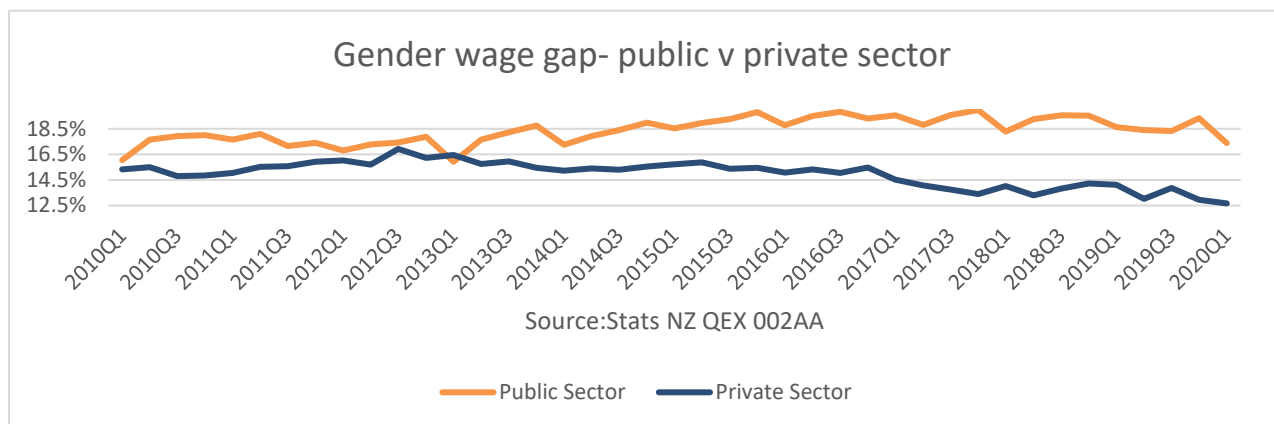
<sup>2</sup> I note though that any comments of mine on race should be taken with a grain of salt given that the [economics profession also suffers from racial unconscious biases](#)

## Self-employment



Interestingly as seen from the graph over the page and the one above - the wage gap and the pay (including self-employment) gap are materially the same for all groups except European or Pākehā women<sup>3</sup>. For them self-employment is statistically significant and combining it with wage income seems to almost halve the gap faced by this group. One explanation for this could be that for women in highly paid professions, self-employment is a mechanism to remove any female discount.<sup>4</sup>

## Public v Private Sector Wage Gap



<sup>3</sup> 'European' is the term used by Stats NZ.

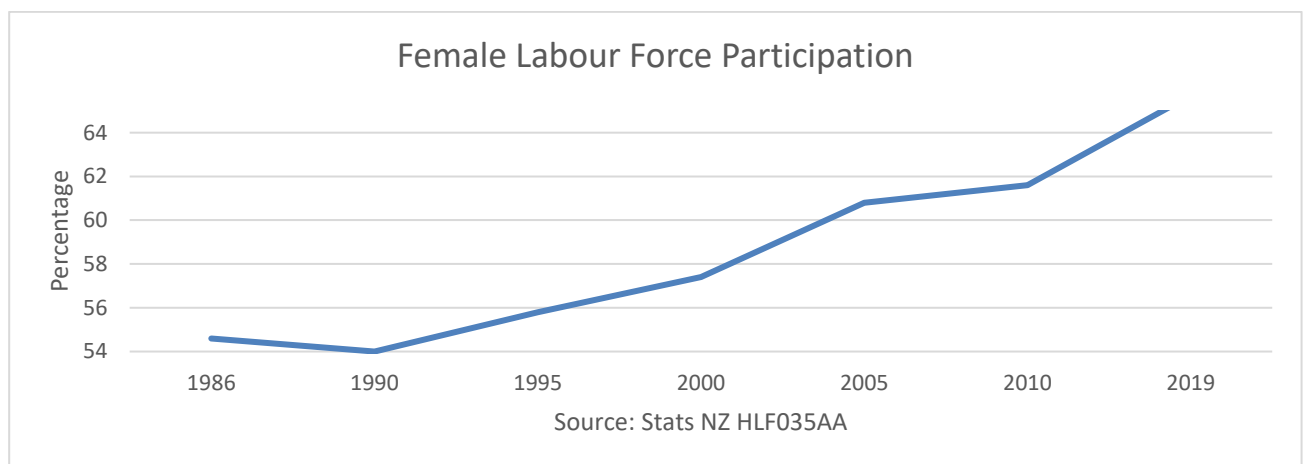
<sup>4</sup> A recent English study looking at the pay gap for Veterinarians ironically found that managers who felt there was no pay gap were more likely to perpetuate it in practice than those who felt a structural pay gap based on unconscious bias existed. <https://psychcentral.com/news/2020/06/30/gender-bias-kept-alive-by-people-who-think-its-dead/157701.html>

But the real equity gains are with low paid workers which have been a focus in the pay equity settlements in the State Sector.<sup>5</sup> These are the incomes that support families and can be the difference between material hardship and not.

### Female Labour Force Participation

Couples with children who are both in paid work are only 1.9 % of those whose households are in poverty. This rises to 13.5% when only one of the partners are employed.<sup>6</sup>

Such findings are consistent with the steadily increasing female labour force participation rate since 1986 indicating that two incomes are increasingly needed to avoid material hardship.



### Early Childhood Education

Which then means that the recent debate and concern over the [quality, cost and accessibility of early childhood education](#) is all the more important as the (unpaid) work of caring for children hasn't gone away with the increased numbers of women in the paid workforce.<sup>7</sup>

Ironically, the Early Childhood Education workforce itself – one that is dominated by women – also has its own pay parity issues as teachers, other than the ones in Kindergartens, are paid less than Primary School teachers. And to make matters worse, due to the complex devolved contracting model, the recent funding increase to improve the pay of the lowest paid teachers – [might not end up going to the teachers concerned](#), contrary to the intent of the government.

---

<sup>5</sup> These settlements seem to be reducing the gap in both the Public and the Private Sector as the original Care and Support claim, while part of the contracted Public Sector, is classified as Private by Stats NZ.

<sup>6</sup> Table 8 [https://www.hrc.co.nz/files/8215/7462/2882/In-Work\\_Poverty\\_Report\\_2019.pdf](https://www.hrc.co.nz/files/8215/7462/2882/In-Work_Poverty_Report_2019.pdf)

<sup>7</sup> Since 1986 the male labour force participation rate has fallen by 4.3% (from 79.4% to 75.1% in 2019). However, there was a 6.2% fall between 1986 and 1992 which accounts for most of this change.

## Pay transparency

So the passing of the Bill is a good start. Other things that need to happen are:

- removing the – often – opaque barriers to well-paid male dominated occupations<sup>8</sup>
- reducing the cost, increasing the quality and accessibility of early childhood education and well as
- potentially banning requests for salary history. Such a [ban in Massachusetts](#) appears to have had an impact on the race and gender wage gap.

Pay transparency, however, is key to making further progress.

As individuals or unions, we are unable to easily uncover the level of the gap attributable to discrimination without information. And one of the first things that is ever taught in any ECON 101 class is the importance of information in properly functioning markets.

In recent work by [the Human Rights Commission](#), they found that almost half of the participants had been paid less than someone else doing the exact job. Transparency was very effective in policing the wage subsidy and as someone under a collective agreement whose pay is currently transparent to her colleagues, I struggle to see what the issue is with it.

As always, I welcome feedback to [andreab@nzctu.org.nz](mailto:andreab@nzctu.org.nz).

Kia Kaha

**Andrea**

The [NZIER consensus forecast](#) was released on 15 June 2020

Annual Percentage Change (March Year)	2019/20	2020/21	2021/22	2022/23
<b>GDP</b>	1.7	-9.0	6.9	4.3
<b>CPI</b>	2.5	0.2	1.1	1.6
<b>Private Sector average hourly wage</b>	3.4	1.3	1.9	2.1
<b>Employment</b>	1.5	-5.0	3.1	3.1
<b>Unemployment rate (% of labour force)</b>	4.2	8.2	7.2	4.2

---

<sup>8</sup> The recent initiative to make some trades and occupations training free is a good example. Many of the trades listed are traditionally male dominated ones. Without specific initiatives to ensure women and girls equally undertake this training, there is a risk that this enhances the current occupational segregation with continued consequent effect on the gender wage gap.

## Further Resources

[https://women.govt.nz/sites/public\\_files/Advice%202018.04.10%20Economic%20modeling%20of%20impacts%20of%20pay%20equity%20on%20GPG.pdf](https://women.govt.nz/sites/public_files/Advice%202018.04.10%20Economic%20modeling%20of%20impacts%20of%20pay%20equity%20on%20GPG.pdf) Economics of pay equity

<https://motu.nz/our-work/population-and-labour/individual-and-group-outcomes/parenthood-and-labour-market-outcomes>

<https://www.payscale.com/data/racial-wage-gap-for-men>

<https://treasury.govt.nz/publications/ap/ap-18-03-html#section-6> Ethnic pay gap

[http://motu-www.motu.org.nz/wpapers/19\\_02.pdf](http://motu-www.motu.org.nz/wpapers/19_02.pdf) Pacific Migrants experience

<https://www.mpp.govt.nz/assets/Uploads/Pou-Matawaka-Final-Report-Ethnic-Pay-Gap-March-2019-for-release-.pdf>

<http://cevepnz.org.nz/Gender%20pay%20gap/gender-ethnicity.htm> CEVEP ethnic wage gap

[https://workresearch.aut.ac.nz/\\_data/assets/pdf\\_file/0005/350654/Pacific-In-Work-Poverty-Report.pdf](https://workresearch.aut.ac.nz/_data/assets/pdf_file/0005/350654/Pacific-In-Work-Poverty-Report.pdf)  
Pasifika in-work poverty

<https://treasury.govt.nz/publications/wp/wp-18-02> Gender Budgeting

<https://www.rnz.co.nz/news/national/396287/early-childhood-education-standards-too-low-researcher>  
Bedford, M. (2019). Contractual Model for ECE Governance and Service Provision.

<http://www.bu.edu/articles/2016/gender-pay-equity/> Calculating Gender Pay Equity

## Economic Indicators – July 2020

This month sees the numbers of people on the Jobseeker Support, Covid Income Relief Payment, as well as the level of wage subsidy plateau, albeit at much higher numbers than last year.

The House Share and Bond markets all continue to rise, in some cases, to levels higher than pre Covid. All presumably as a result of the low interest rates caused from the [quantitative easing by the Reserve Bank](#).

The Consumer and Household Living Cost Price indexes fall or tail off largely due to the decrease in petrol prices. Rent and Food, however, continue to increase in price with the effect that the price inflation for those on lower incomes also continues to be higher than for those on higher incomes.

The Stats NZ survey that provides the official data on employment – Household Labour Force Survey - for June won't be out until next month. In the meantime, there are several proxies for the state of the employment market.

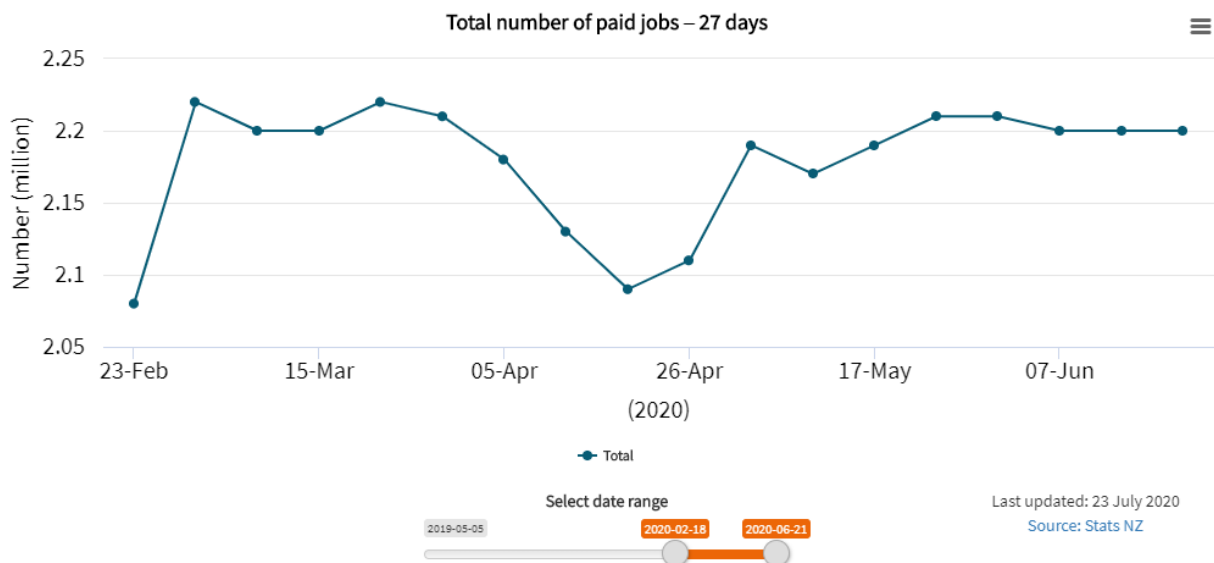
Both the new [New Zealand Activity index](#)

Figure 2: New Zealand Activity Index



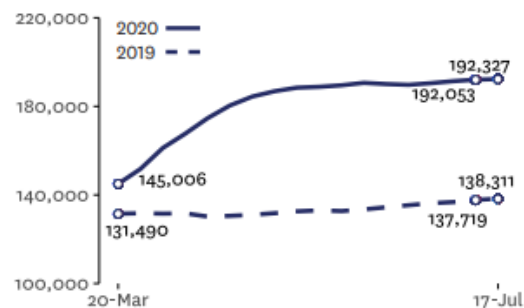
Source: The Treasury, Stats NZ and RBNZ

and the [weekly employment indicators](#) based on tax data from Inland Revenue show an employment market, below its peak, but returning to pre lockdown levels. The question, however, will be what is the outcome once the full effect of the wage subsidy is removed?



## 1) [Claimants of Jobseeker Support and Covid Income Relief Payment](#)

### 2. Number of Jobseeker Support recipients



#### Current recipients, as at 17 July 2020

**18,592 recipients\*\***

of CIRP, an increase of 2,068 compared with the week ending 10 July 2020.

**2,886 recipients**

or **15.5 percent** transferred from Jobseeker Support to CIRP.

**16,812 full-time**  
recipients of CIRP.

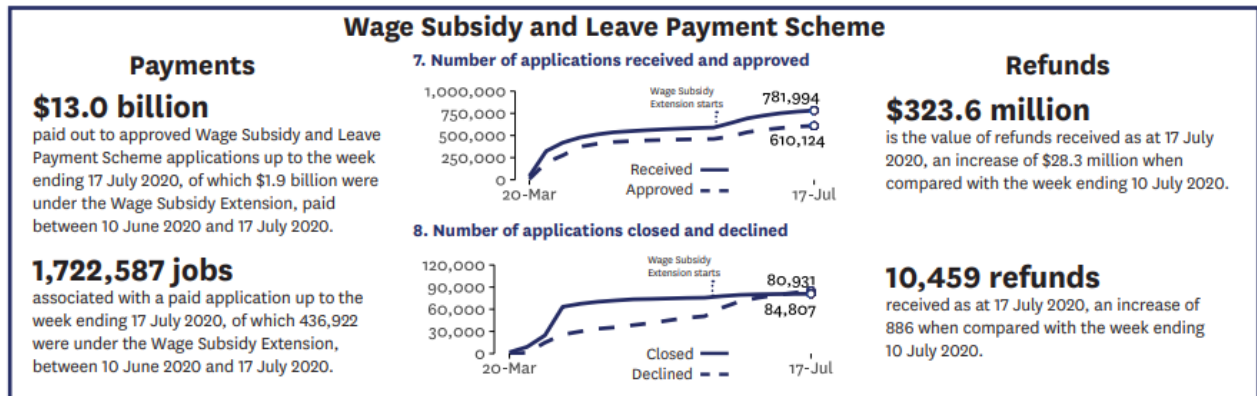
**1,780 part-time**  
recipients of CIRP.



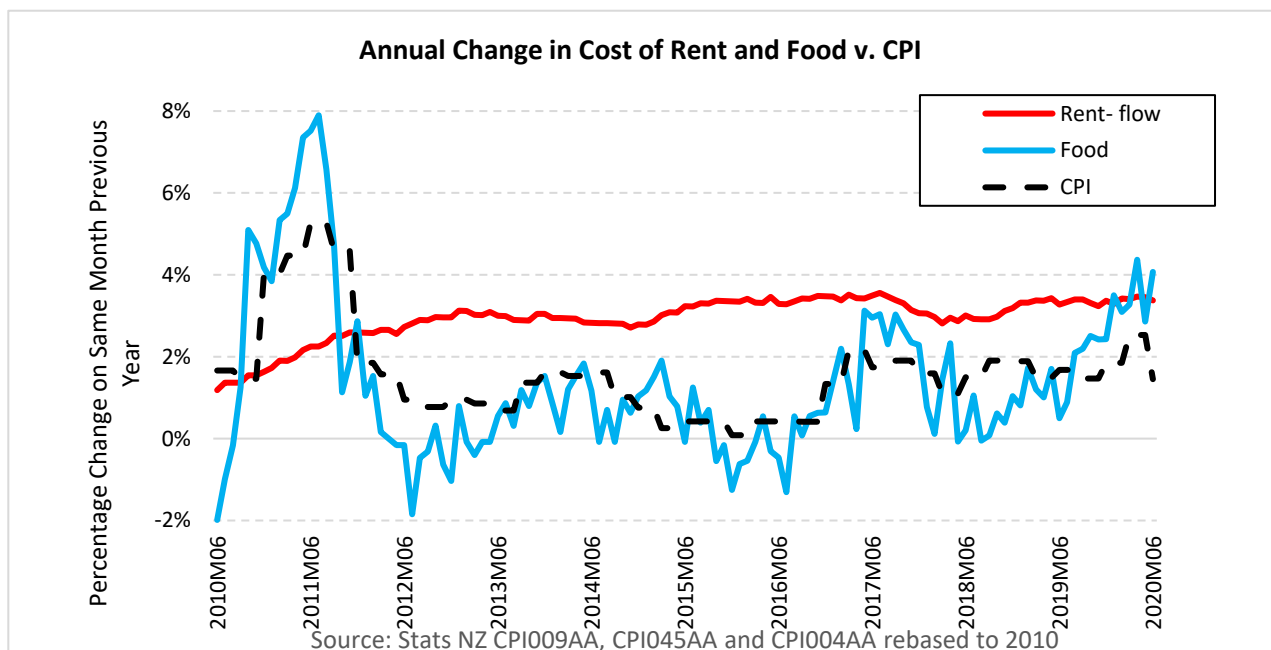
The Jobseeker recipients seem to have plateaued at 50,000 people more than last year with an additional 20,000 recipients of the Covid Income Relief Payment (CIRP). While the Jobseeker recipients may still have some paid work they do not include anyone who has a partner earning more than the fulltime minimum wage. CIRP recipients may, however, have a partner earning up to \$102,000 but they can't be undertaking any paid work themselves.

## 2) Wage Subsidy

This also seems to have plateaued at \$13 billion and 1.7 million associated jobs.

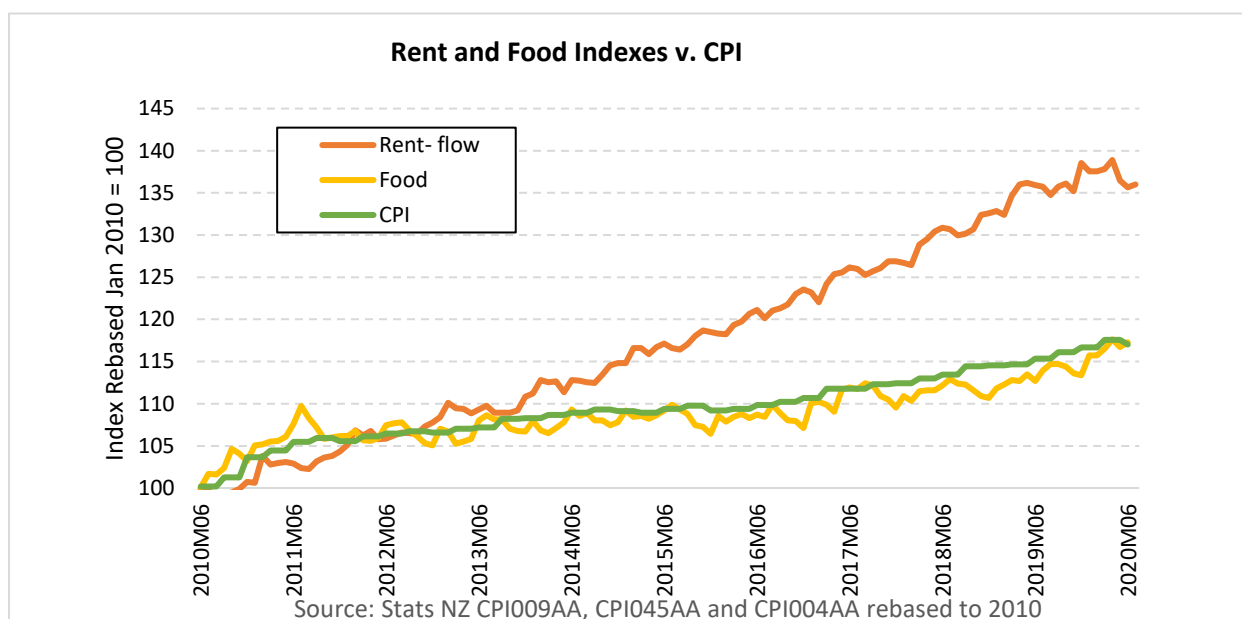


## 3) Rent, Food and CPI.



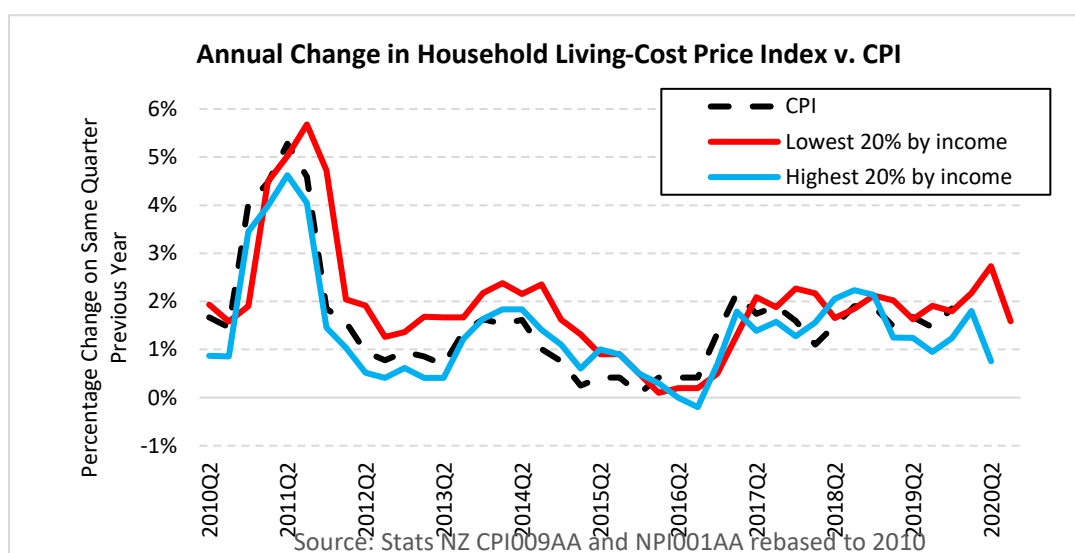
The Consumer Price Index fell by 0.5% in the June 20 quarter because of cheaper petrol and hotel rooms. The last time the CPI was negative was in the [December 15 quarter](#) which was also as a result of a decline in petrol prices.

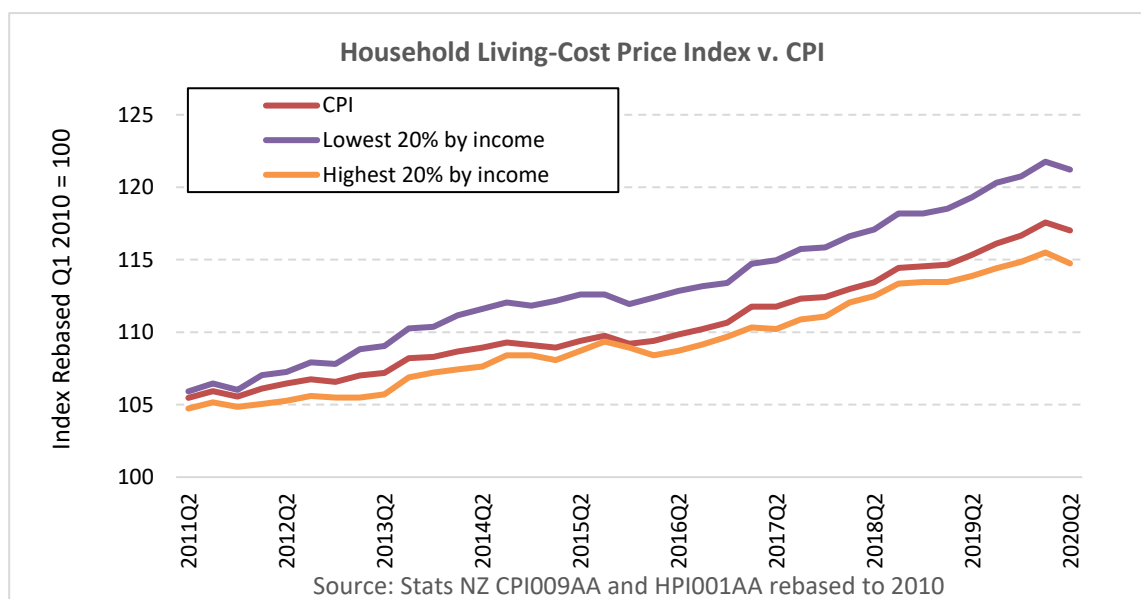
However, the food and rent component of the index still rose with the food index increasing by 0.5% and the rent index (flow) increasing by 0.3% in June 2020.



#### 4) Household Living Cost Price indexes

Consistent with the CPI, the Household Living Cost Price indexes also fell. However also consistent with the pre-lockdown trend, the cost of living for those on lower incomes continued to be higher than for those on higher incomes. This is because food and rent which are a higher proportion of the budget for low income people continued to rise while interest rates and hotel rooms – a greater proportion of the budget for higher income people – fell.





## 5) The sharemarket

At 27 July 2020, the sharemarket had almost – 11500 v 12,000 – recovered to its peak in late February 2020.



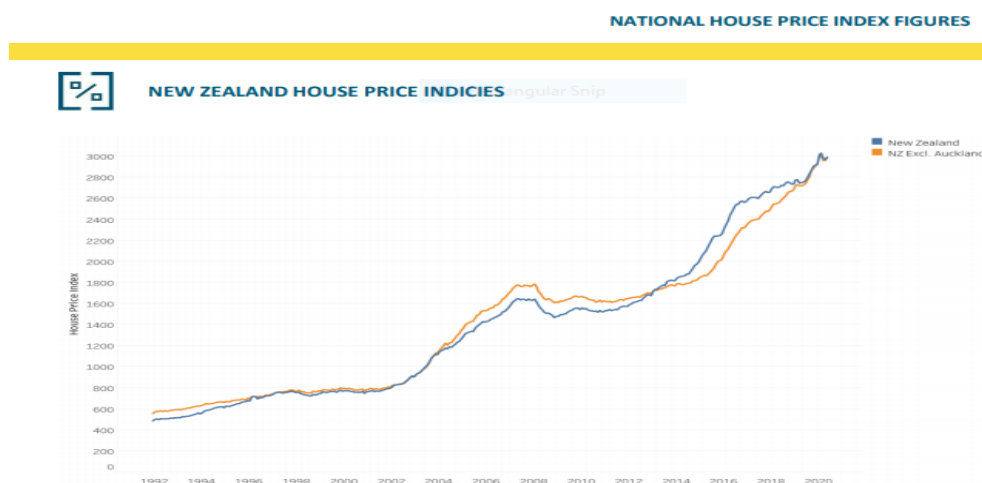
## 6) Bonds<sup>9</sup>

Still up.



## 7) House prices<sup>10</sup>

Still up over the year but if you squint you can see the 1.2% drop over the lockdown period but with a slight rise of 0.9% again in June. To date there is little sign of any effect of a decline in demand I had hoped for in [March](#) when we were initially locked down.



<sup>9</sup> For bonds, usually it is the yields that are tracked rather than the price of the bonds and so it can be difficult to find out what is happening to the price. As a proxy I am looking at the exchange traded fund for New Zealand bonds.

<sup>10</sup> <https://www.reinz.co.nz/Media/Default/Statistic%20Documents/2020/June/REINZ%20Monthly%20HPI%20Report%20-%20June%202020.pdf>  
<https://treasury.govt.nz/publications/weu/weekly-economic-update-17-july-2020-html>



## SUMMARY OF MOVEMENTS

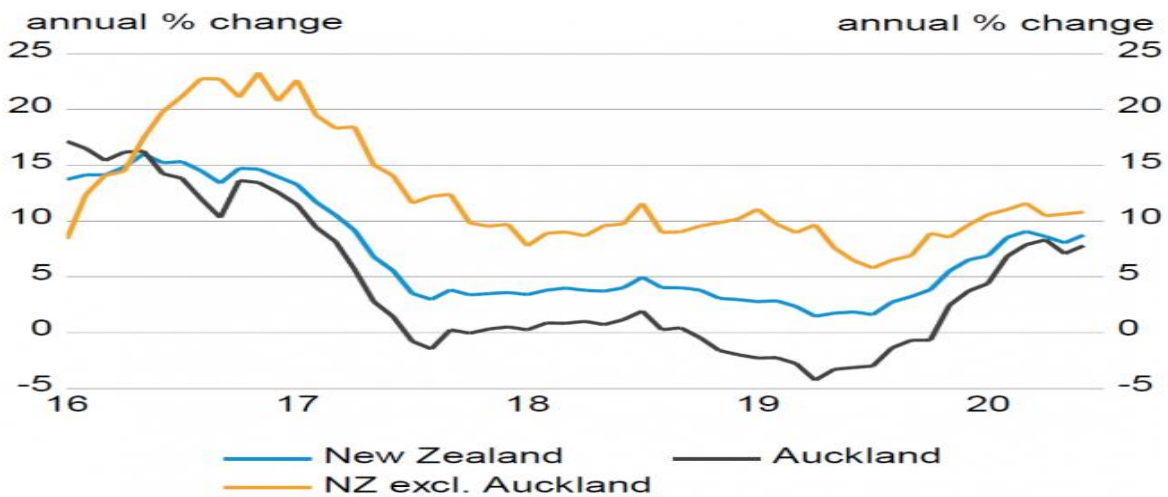
House Price Index	Index Level	1 Month	3 Months	1 Year	5 Years*
New Zealand	2991	0.9%	-1.2%	8.6%	6.9%
NZ excl. Auckland	2982	0.8%	-0.8%	9.5%	9.7%
<b>Auckland</b>	3002	0.9%	-1.8%	7.7%	4.0%
Rodney District	2973	3.2%	1.3%	5.3%	6.1%
North Shore City	3034	0.3%	-2.0%	8.5%	3.2%
Waitakere City	3198	2.6%	-1.7%	7.2%	3.6%
Auckland City	2858	0.8%	-2.8%	7.9%	3.9%
Manukau City	3163	0.3%	-0.9%	7.8%	4.3%
Papakura District	3199	-1.4%	0.3%	8.1%	4.9%
Franklin District	3189	0.3%	0.3%	4.6%	4.7%
<b>Other North Island</b>					
Whangarei District	3104	0.0%	0.1%	8.5%	11.4%
Hamilton City	3207	-0.8%	-1.8%	8.0%	9.2%
Tauranga City	2843	-0.1%	-0.3%	7.6%	9.9%
Rotorua District	3609	-2.2%	-0.2%	13.6%	15.4%
Hastings District	3213	1.6%	-0.3%	17.7%	14.8%
Napier City	2990	3.9%	2.8%	14.4%	13.9%
New Plymouth District	3142	0.2%	-1.0%	10.1%	6.6%
Palmerston North City	3186	3.4%	-0.8%	16.0%	12.7%
<b>Wellington</b>	2997	0.8%	-1.2%	10.8%	12.1%
Porirua City	2959	-3.9%	-5.5%	6.3%	12.3%
Upper Hutt City	3467	1.9%	-1.9%	10.9%	13.7%
Lower Hutt City	3309	-0.7%	-0.1%	12.7%	13.3%
Wellington City	2724	2.4%	-0.4%	10.8%	11.0%
<b>South Island</b>					
Nelson City	2476	1.6%	0.7%	7.0%	11.0%
Christchurch City	2469	1.6%	-0.6%	5.1%	1.9%
Queenstown-Lakes District	2484	-3.0%	-9.1%	-7.6%	8.8%
Dunedin City	3647	-0.5%	-2.4%	17.2%	13.0%
Invercargill City	3301	-1.6%	-0.9%	10.9%	12.0%

Source: REINZ

\* = Compound Growth Rate

REINZ | REAL ESTATE

Figure 3: House prices



Source: REINZ

---

## **Notes**

*This bulletin is available online at <http://www.union.org.nz/economicbulletin220>. For further information contact [Andrea Black](#)*

# Monthly Economic Review

July 2020



PARLIAMENTARY SERVICE  
Te Ratonga Whare Pāremata

	2018/19	2019/20	
<b>Economic Growth</b>	3.1%	1.5%	Annual average GDP Growth (March year)
<b>Unemployment</b>	4.1%	4.2%	Unemployment Rate (March quarter)
<b>Inflation</b>	1.5%	2.5%	Annual Inflation Rate (March year)
<b>Current Account Deficit</b>	\$10.8b	\$8.5b	Current Account Deficit (March year)
<b>Interest Rates</b>	1.50%	0.25%	Official Cash Rate (6 July)

## Latest data and events

New Zealand's gross domestic product contracted by 1.6 percent in the March 2020 quarter, the largest quarterly contraction since the March 1991 quarter. Thirteen of 16 industries recorded a reduction in value-added output in the quarter. Investment in residential buildings and other fixed assets fell substantially, while the external sector added to growth (as the volume of imported goods and services fell by a larger degree than exported volumes). Annual average GDP growth fell to 1.5 percent over the year ended March 2020.

The current account deficit was \$1.6 billion in the March 2020 quarter in seasonally adjusted terms. Services export revenues fell by \$460 million in the March quarter, due to a \$342 million reduction in spending by international visitors and students, and an \$83 million reduction in transportation export services. The value of goods imported fell by \$352 million in the quarter with a reduction in imported consumer goods, while the value of exported goods rose by \$261 million (with an increase in fruit, milk powder, butter and cheese exports). The annual current account deficit was \$8.5 billion (equivalent to 2.7 percent of gross domestic product).

Tourism spending in May 2020 at \$1,057 million was 48 percent lower than the same month a year earlier according to MBIE. Those Regional Tourism Organisations (RTO) areas with the largest percentage decline in tourism spending in May 2020 compared with May 2019 included Fiordland, Queenstown, along with the Mackenzie and Wellington regions. Nationally, in the year ended May 2020, tourism spending was 11 percent lower than the previous year.

The Monetary Policy Committee of the Reserve Bank agreed to continue its \$60 billion Large Scale Asset Purchase programme on 24 June. The Committee also decided to keep the official cash rate at 0.25 percent, in line with its announcement on 16 March to keep the official cash rate at this level *"for at least the next 12 months"*. The Committee also announced that it would favour an expansion of the Large Scale Asset Purchase programme rather than further reductions in the official cash rate if additional monetary policy stimulus was required.

Households have increased their bank deposit holdings as a result of COVID-19, with significant increases in transactional and savings account balances during the months of March and April. Individuals also paid back their personal consumer loans with lending institutions during those two months, with the total value of personal loans outstanding falling in March and April (but these have since risen by 0.5 percent in May).

The Treasury has launched a *New Zealand Activity Index*, which is a composite index that tracks eight separate indicators of economic activity. According to the Index, economic activity in May 2020 was 6.5 percent lower than a year earlier. This was an improvement upon April's index level, which was 19 percent lower than a year earlier.

**Topic of the month:** Māori businesses

## Economic growth

### Background

A country's gross domestic product (GDP) is a measure of economic activity during a period of time, normally reported on a quarterly and an annual basis. It is the sum of money values of all final goods and services produced in an economy. The primary indicator used for tracking economic growth over time is known as real gross domestic product, or real GDP. Real GDP is gross domestic product adjusted for changes in prices. New Zealand's official gross domestic product figures are sourced from Stats NZ.

### Gross domestic product

Gross domestic product contracted by 1.6 percent in the March 2020 quarter, the largest quarterly contraction in economic activity in 29 years, as the economy felt the initial impacts of COVID-19.

Thirteen of the 16 industry groups recorded a contraction in economic activity in the March quarter. The construction industry contracted by 4.1 percent in the quarter with building sites closing during the lockdown. Economic activity in the transport, postal, and warehousing industry contracted by 5.2 percent in the quarter. This industry was significantly impacted by the restrictions on travel.

Annual average GDP growth was 1.5 percent in the year ended in the March 2020 quarter, compared with 3.1 percent a year earlier.

### Other data

The Treasury has launched a *New Zealand Activity Index* which is a composite of eight indicators covering consumer spending, unemployment, job vacancies, traffic volumes (light and heavy traffic), electricity generation, business outlook and manufacturing activity. The index for May was 6.5 percent lower than for May 2019 (having been 19 percent lower in April than a year earlier).

### Outlook

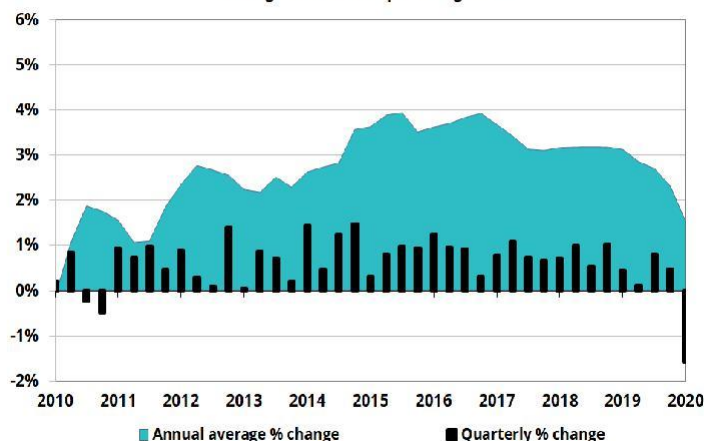
Treasury now expects gross domestic product to contract by around 20 percent in the June quarter (an improvement on the 23 percent contraction forecast in the *Budget Economic and Fiscal Update 2020*). The OECD has forecast that the New Zealand economy will contract by nearly nine percent in 2020, assuming there are no further COVID-19 outbreaks (and contract by ten percent if there is a second global wave of outbreaks in the fourth quarter of 2020).

GDP growth (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Annual average (year-on-year)	3.1	2.9	2.7	2.3	1.5
Quarterly (seasonally adjusted)	0.4	0.1	0.8	0.5	-1.6

Source: Stats NZ.

**Next Release:** *Gross Domestic Product: June 2020 quarter.*

Real gross domestic product growth



BNZ-Business New Zealand	Apr-20	May-20
Performance of Manufacturing Index	25.9	39.7
Performance of Services Index	25.7	37.2

Seasonally adjusted. A figure over 50 indicates an expansion in activity.

Source: BNZ-Business New Zealand.

Year ended March 2020	Nominal GDP
Gross Domestic Product	\$314,027 million
GDP per capita	\$63,504

Source: Stats NZ.

ANZ Business Outlook Survey	May-20	Jun-20
General 'Business Confidence'	-41.8	-34.4
Own 'Activity Outlook'	-38.7	-25.9

Net percentage expecting an improvement in 12 months' time.

Source: ANZ Bank, Business Outlook survey.



## Employment and Unemployment

### Background

The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New Zealand, the official unemployment rate is sourced from Stats NZ's quarterly Household Labour Force Survey (produced as part of its Labour Market Statistics).

### Labour market

New Zealand's unemployment rate rose 0.2 percentage points to 4.2 percent in the March 2020 quarter, with 116,000 people unemployed (in seasonally adjusted terms). The labour force expanded by 0.9 percent in the quarter, resulting in an increase in unemployment despite an increase in employment. Growth in part-time employment accounted for two-thirds of employment growth in the quarter.

### Other data

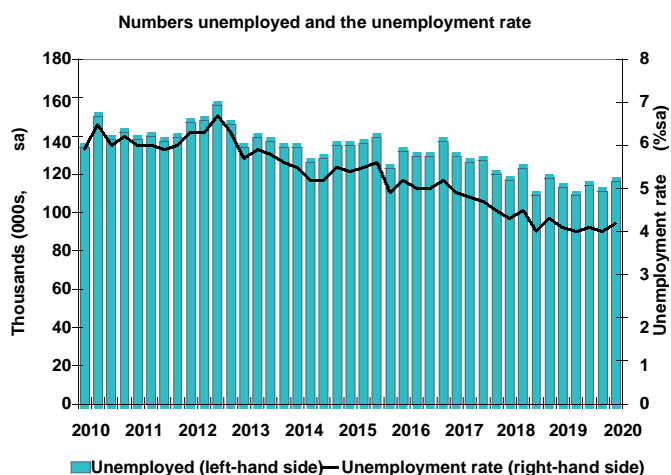
The number of filled jobs rose by 0.8 percent in May according to Stats NZ's *Employment Indicators*. This followed a 1.6 percent drop in April and 0.2 percent fall in March. Stats NZ noted that filled jobs numbers included those covered by the wage subsidy scheme. Stats NZ also mentioned that those aged 15 to 24 years were more significantly hit by the job losses in April (and had a harder time filling jobs in May).

The number of those receiving Jobseeker Support was 190,456 on 26 June, up 45,795 from mid-March, but slightly lower than the early June peak of 190,607. For those receiving Jobseeker Support and are work ready, the largest percentage increase has been for those aged 20 to 29 years.

There has been some improvement in firms' employment intentions in the *ANZ Business Outlook* survey over the last two months. However, a net 35 percent of firms still expect to reduce employment levels in their firm over the coming 12 months.

### Outlook

The Treasury now expects an unemployment rate of around 7.5 percent in the June 2020 quarter. The unemployment rate is forecast to peak in either the September or December 2020 quarters, with forecasts from 7.7 percent (ASB), 8 percent (Westpac), about 9 percent (Treasury), and 10 percent (ANZ and BNZ).



ANZ Business Outlook Survey	May-20	Jun-20
Net % expecting to increase employment in their business in 12 months*	-42.4	-34.7

\*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: ANZ Bank.

Quarter	Mar-19	Mar-20
Average ordinary time weekly earnings for FTEs (pre-tax) (\$)	\$1,215.54	\$1,257.23
Labour Cost Index - % change in salary and wage rates (including overtime) from the same quarter of the previous year	+2.0	+2.5

Source: Stats NZ.

Household Labour Force Survey	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Unemployment Rate (seasonally adjusted, %)	4.1	4.0	4.1	4.0	4.2
Employment Growth (annual, %)*	1.3	1.4	0.8	0.8	1.6

\*change since the same quarter of the previous year based on seasonally adjusted data. Source: Stats NZ.

**Next Release:** *Labour Market Statistics: June 2020 quarter.* **Date:** 5 August 2020

## Inflation

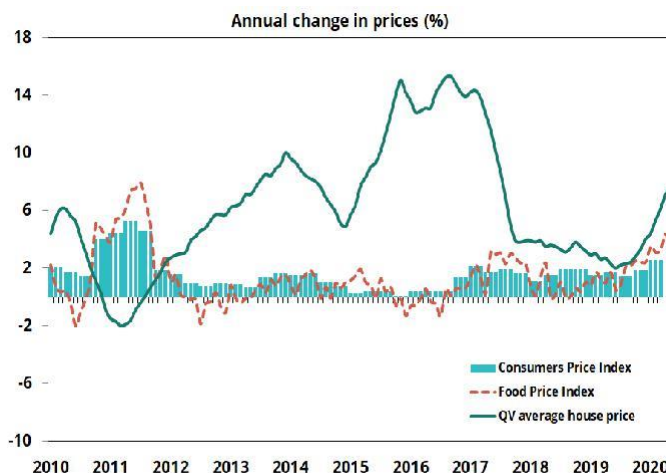
### Background

Inflation is the change in prices of goods and services over a certain period of time. The official rate of consumer inflation is measured by Stats NZ's Consumers Price Index (CPI). The CPI tracks the price of a basket of household goods and services over time on a quarterly basis.

### Consumers Price Index

Annual inflation, at 2.5 percent in the year ended in the March 2020 quarter, was the highest annual inflation rate recorded since the year ended in the September 2011 quarter (which was impacted by the rise in the goods and services tax rate from 12.5 percent to 15 percent from 1 October 2010).

Annual inflation was driven by annual non-tradables inflation (i.e. domestic inflation) which was 3.4 percent in the year ended in the March 2020 quarter. Stats NZ said that high domestic inflation was influenced by “higher prices for rents, cigarettes and tobacco, construction of new houses, and local authority rates”.



### Other data

The national median house price was \$620,000 in May according to the REINZ. The *REINZ House Price Index* rose by 7.9 percent over the year. There were 3,990 properties sold in May, a decline of 46.6 percent over the year earlier, due to Alert Level 3 restrictions during part of the month making it difficult to sell properties. The median number of days taken to sell a property rose to 58 days in May (compared to 41 days in May 2019).

OneRoof and its data partner Velocity has reported that house prices have fallen by one percent since the lockdown commenced on 25 March. Prices in the Queenstown Lakes district have fallen by 7.7 percent, and 5.7 percent on the West Coast region.

### Outlook

The Reserve Bank has reported that a higher New Zealand dollar is dampening the outlook for inflation, along with lower domestic and international economic activity. *NZIER Consensus Forecasts* has annual inflation declining “*sharply over the coming year before recovering in subsequent years*”. Average annual inflation of 0.2 percent has been forecast for the year ended March 2021.

Annual Percentage Change (%)	Apr-20	May-20
Quotable Value – Residential property values*	7.1	7.7
REINZ House Price Index**	8.5	7.9
Food Price Index**	4.4	2.9

\*change since the same three months ended in the month of the previous year \*\*change since the same month of the previous year.

Sources: Quotable Value; REINZ; Stats NZ.

ANZ Business Outlook Survey	May-20	Jun-20
Net % of respondents expecting to increase prices in 3 months' time*	-2.0	-0.3
Inflation expected in 12 months' time	1.30	1.44

\*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: ANZ Bank.

Inflation (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Consumers Price Index - Annual	1.5	1.7	1.5	1.9	2.5
Tradables inflation	-0.4	0.1	-0.7	0.1	1.5
Non-tradables inflation	2.8	2.8	3.2	3.1	3.4
CPI - quarterly	0.1	0.6	0.7	0.5	0.8

Source: Stats NZ.

**Next Release:** *Consumers Price Index: June 2020 quarter.*

**Date:** 16 July 2020

## External

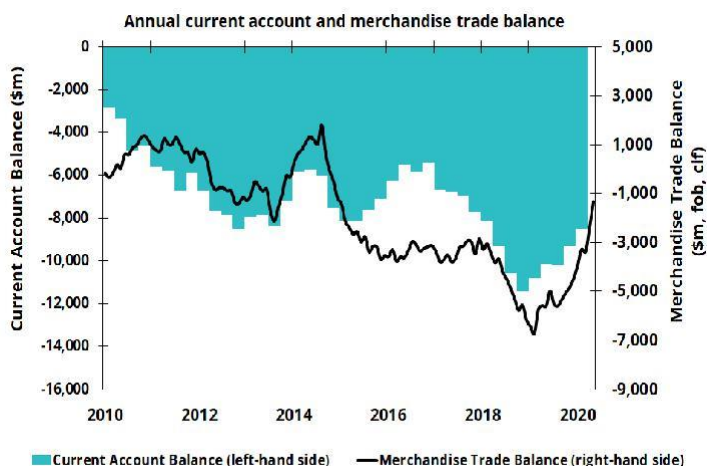
### Background

The balance of payments is the record of the receipts and payments between a country's residents and the rest of the world, over a given period. The current account is that part of a country's balance of payments which embraces its transactions of goods, services, primary income (i.e. international income), and secondary income (i.e. current transfers such as foreign aid). A "balance of payments deficit" refers to a deficit of the current account.

### Current account balance

New Zealand's seasonally adjusted current account deficit for the March 2020 quarter was \$1.6 billion, \$372 million lower than the previous quarter. The improvement in the deficit was driven by a \$613 million improvement in the goods balance. There was an increase in the value of fruit exports in the quarter (especially for kiwifruit), while milk powder, butter and cheese export values also rose. The value of imported consumption goods fell in the quarter.

The annual current account deficit was \$8.5 billion in the year ended 31 March 2020, equivalent to 2.7 percent of gross domestic product.



### Other data

New Zealand's international investment position was negatively impacted by the decline in international equity prices in the March quarter. At 31 March 2020, the net liability position was \$182 billion, an increase of \$10.1 billion from the position on 31 December 2019. The number of international visitors arriving in April 2020 was 1,721, compared with 307,409 a year

earlier. Stats NZ estimated that there were approximately 125,000 to 145,000 visitors in New Zealand as at 5 June.

### Outlook

The ANZ expects the current account deficit will average around 2.5 percent of GDP over the next couple of years. The deterioration in international tourism revenues is expected to be offset by lower debt servicing costs due to lower interest rates, buoyant demand for goods exports (particularly for food products), and weak domestic demand. Higher equity prices in the June quarter will unwind some of the deterioration in New Zealand's net liability position.

Annual Change (%)	May-20	Jun-20
World Commodities Prices*	-8.2	-5.2
NZ\$ Commodities Prices*	-1.4	-1.5
Overseas Visitors**	-14.0 (Apr)	n/a

\*change since the same month of the previous year. \*\*change since the previous year-end. Sources: Stats NZ; ANZ.

Balances (\$m)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Apr-20
Quarterly Current Account (seasonally adjusted)	-2,495	-2,346	-2,550	-1,926	-1,554	n/a
Annual Current Account	-10,801	-10,164	-10,189	-9,341	-8,506	n/a
Goods	-4,564	-3,894	-4,198	-3,895	-3,139	n/a
Services	4,625	4,308	4,181	4,163	4,042	n/a
Primary income (i.e. investment income)	-10,559	-10,084	-9,564	-8,946	-8,773	n/a
Secondary income (i.e. current transfers)	-303	-494	-608	-662	-637	n/a
Net international investment position (as at date)	-163,922	-166,704	-171,170	-171,895	-182,036	n/a
Annual Merchandise Trade Balance (FOB-CIF)*	-5,739	-4,987	-5,321	-4,467	-3,383	-1,327

\* FOB – Free on board, the value of goods at New Zealand ports before export. CIF – Cost of goods imported, including insurance and freight to New Zealand. Source: Stats NZ.

**Next Release:** Balance of Payments: June 2020 quarter. **Date:** 16 September 2020

## Finance

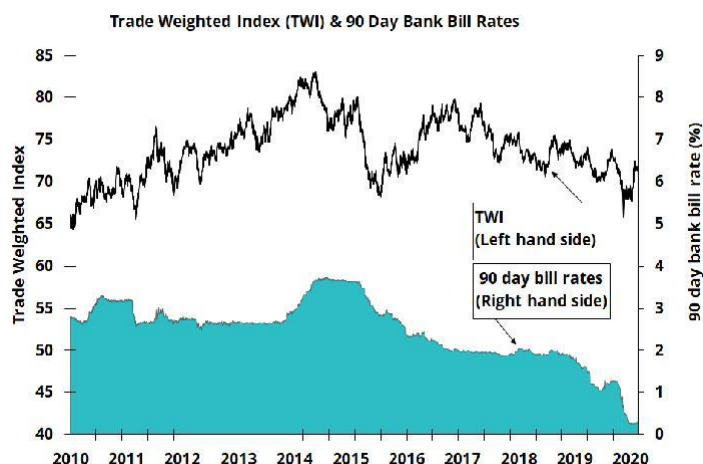
### Background

The trade weighted index (TWI) is an index of the New Zealand dollar's value against a basket of 17 overseas currencies, where each currency is weighted by a combination of the size of the associated country's bilateral merchandise trade with New Zealand (including the Euro area) and their gross domestic product. The Official Cash Rate (OCR) is the interest rate that applies to overnight borrowing and lending between banks and the Reserve Bank. The S&P/NZX 50 is the main share index of the New Zealand Exchange. It tracks changes in the share prices of the top 50 publicly listed companies by free float market capitalisation on the NZX market. It is a gross index, so it includes the payout of dividends in its calculation.

### Recent trends & data

As per the Reserve Bank's announcement in March that it was keeping the official cash rate at 0.25 percent "for at least the next 12 months", the Bank's Monetary Policy Committee kept the official cash rate at 0.25 percent on 24 June. The Committee also announced that it was continuing its Large Scale Asset Purchase programme of purchasing New Zealand Government Bonds, Local Government Funding Agency Bonds, and New Zealand Government Inflation-Indexed Bonds. The size of the programme is currently set at \$60 billion.

Both borrower and depositor retail interest rates have fallen in recent months. While floating mortgage rates have fallen by 70 - 76 basis points, fixed mortgage rates have fallen by less. Term deposit rates have also fallen, with deposit rates for a \$10,000 deposit ranging from 0.39 percent (one year) through to 2.15 percent for a term of 18 months or five years. These deposit rates are particularly unfavourable (especially net of tax) when compared with the current annual inflation rate of 2.5 percent.



Core Crown borrowing as at	30-Apr-20 (\$m)	30-Apr-20 (%GDP)
Gross sovereign-issued debt *	92,871	29.9
Net core Crown debt **	78,758	25.3

\*Excluding Reserve Bank settlement cash and Reserve Bank bills.

\*\* Excluding NZ Super Fund and other advances. Source: The Treasury.

### Outlook

The Reserve Bank has said that it is willing to provide additional stimulus, such as increasing the size of its asset purchase programme or using additional monetary policy tools, if necessary. ANZ expects that the size of the asset purchase programme will rise to \$90 billion, while Westpac believes it will be expanded to \$100 billion in order to keep interest rates low. A negative official cash rate has not been ruled out, although ASB believes the Reserve Bank will utilise other monetary policy tools first. Westpac expects an official cash rate of -0.5 percent next year.

Monthly averages	Feb-20	Mar20	Apr-20	May-20	Jun-20
90 Day Bank Bill rate	1.18	0.71	0.39	0.26	0.28
10 Year Government Bond yields (secondary market)	1.28	1.08	0.95	0.64	0.90
Floating mortgage rate*	5.26	4.50	4.50	4.50	n/a
SME overdraft rate*	9.09	8.50	8.53	8.35	n/a
Trade Weighted Index (TWI) exchange rate	71.37	68.77	68.49	68.94	71.60
S&P/NZX50 index	11715	10120	10339	10752	11178

\*Last business day of the month. Sources: Reserve Bank; NZX.

**Next Official Cash Rate (OCR) decision: 12 August 2020**

## International

### Background

New Zealand's economic growth rate, unemployment rate and central bank interest rates are compared with our main OECD trading partners. The first table below illustrates the seasonally adjusted quarterly growth rates in economic activity. The second table below shows the harmonised unemployment rate in each OECD country/area, while the third shows the main central bank interest rates for various countries (and the Euro).

#### Quarterly economic growth rates (%)

Country*	Sep-19	Dec-19	Mar-20
Australia	0.6	0.5	-0.3
Japan	0.0	-1.9	-0.6
NEW ZEALAND	0.8	0.5	-1.6
United Kingdom	0.5	0.0	-2.0
United States	0.5	0.5	-1.3
Euro area	0.3	0.1	-3.6
OECD Total	0.4	0.2	-1.8
China**	1.4	1.5	-9.8

\* Seasonally adjusted growth rate from the previous quarter. \*\* non-OECD. Source: OECD.

#### Harmonised unemployment rates (%)

Country	Apr-20	May-20	Jun-20
Australia	6.4	7.1	n/a
Japan	2.6	2.9	n/a
NEW ZEALAND	4.2 (qtr)	n/a	n/a
United Kingdom	3.8 (Mar)	n/a	n/a
United States	14.7	13.3	11.1
European Union	6.6	6.7	n/a
OECD Total	8.5	n/a	n/a

Source: OECD.

### Economic growth

OECD Composite Leading Indicators are pointing to a sharp slowdown of the global economy, although the Chinese economy is showing initial positive signs. The OECD mentioned that there was considerable uncertainty surrounding outlook, given the impact of lockdowns on each country's economy (and the transition out of lockdowns).

While noting a high degree of uncertainty around its forecast, the International Monetary Fund (IMF) expects the global economy to contract by 4.9 percent in 2020. COVID-19 is having a more negative impact on economic activity than initially forecast. The speed of the economic recovery is also forecast to be more gradual than previously expected.

### Unemployment

The unemployment rate within the OECD is projected to have risen to around 11.5 percent in mid-2020. Unemployment levels are forecast to "moderate gradually" as economies reopen, but will remain substantially higher than prior to the outbreak.

### Central banks

The Australian Reserve Bank Board noted in early June that the Bank's policy package was helping to lower funding costs and support the economy. As such, it reaffirmed a cash rate target of 0.25 percent, targeting a yield of 0.25 percent for three-year Government

bonds, and the provision of funding for businesses (especially SMEs) through the Bank's Term Funding Facility.

#### Central Bank interest rates (as at 6 July)

Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	0.25	20-Mar-20	-25
China	Loan Prime Rate	3.85	20-Apr-20	-20
European Central Bank	Main Refinance Rate	0.00	16-Mar-16	-5
Japan	Uncollateralized overnight rate	-0.10 to 0.00	16-Feb-16	-10
NEW ZEALAND	Official Cash Rate	0.25	16-Mar-20	-75
United Kingdom	Bank Rate	0.10	19-Mar-20	-15
United States	Federal Funds Rate	0.00 to 0.25	16-Mar-20	-75

Source: Central Bank interest rates as at the date stated.



## Topic of the month

### Māori businesses

Stats NZ has released *Tatauranga umanga Māori – Statistics on Māori businesses*, which provides information on Māori businesses in 2019.

### Māori authorities

There were 1,200 Māori authorities in 2019, which are businesses involved in the collective management of assets held by Māori. Of these, about a third were involved in the non-residential property industry, and around a quarter were involved in the primary industries. These Māori authorities employed 12,300 employees as at February 2019, which is a head count of all salary and wage earners.

Proportion undertaking selected business activity (2019, %)		
Activity	Māori authority	Māori small to medium enterprise
Export sales	27	28
Tourism sales	27	17
Investment expansion	45	36
Research and Development	18	18

Source: Stats NZ. Tatauranga umanga Māori: 2019.

In the 2019 calendar year, Māori authorities exported a total of \$741 million, with \$354 million of exports going to China. Fish, crustaceans and molluscs were a significant export commodity for Māori authorities, with exports totalling \$365 million in 2019.

### Māori small to medium enterprises

There were 492 Māori small to medium sized enterprises in 2019, which were predominantly located within the manufacturing; agriculture, forestry and fishing; and business services industries. Māori small to medium sized enterprises have fewer than 100 employees, and are not Māori authorities. These enterprises had 9,900 employees in 2019.

Māori small and medium sized enterprises exported \$202 million worth of commodities in 2019, with \$48 million of exports to Australia. Eighteen percent of Māori small and medium sized enterprises undertook research & development (R&D) in 2019, with the same proportion of Māori authorities also undertaking R&D during the year.

Employee count, number of filled jobs and commodity exports			
Business type	Employee count (Feb-2019)	Filled jobs (Dec-2018 quarter)	Commodity exports (\$m, YE Dec-19)
Māori authority	12,300	12,610	741
Māori small to medium enterprises	9,900	12,780	202
Māori tourism *	11,100	10,490	..
All New Zealand businesses	2,285,000	2,165,740	59,899

Notes: \* Māori tourism businesses may be either Māori authorities or Māori SMEs.

Commodity exports are shown for the year ended 31 December 2019 on a Free on Board basis (the value of goods at NZ ports before export and include re-exports). Source: Stats NZ. Tatauranga umanga Māori: 2019.

Grant Cleland

Research Services Analyst - Economics

Parliamentary Library, Research and Information

ISSN 1176-5860 (Print) ISSN 1178-1300 (Online)



This work is licensed under the Creative Commons Attribution 4.0 International licence. In essence, you are free to copy, distribute and adapt the work, as long as you attribute the work to the Parliamentary Service and abide by the other licence terms. To view a copy of this licence, visit: <https://creativecommons.org/licenses/by/4.0/>.