NZCTU
Te Kauae Kaimahi

Monthly Economic Bulletin

March 2022

NEW ZEALAND COUNCIL OF TRADE UNIONS
union.org.nz

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Introduction from Craig Renney

Greetings to one and all to this new economic bulletin from the CTU. This report has been brought to you by Diana Russell, Tyson Kingi and I at the New Zealand Council of Trade Unions. Should you have any questions about the data, or any requests for more information, please just get in touch. We are always keen to discuss economic topics and any special requests for future editions.

Since the turn of the year we have seen lots of economic news. Record low unemployment, and higher than expected inflation. Fair Pay Agreements and Social Unemployment Insurance have also been discussed by government. The unanticipated cut in fuel duty, and rising interest rates. All this set to the background of rising COVID cases and the uncertain outcomes of an Omicron wave across New Zealand. Economic forecasting at any time is difficult – right now it is an extreme sport.

While the cost of living at the moment is sky-rocketing — mainly due to international supply chain issues from the pandemic and increases to the price of commodities from Russia's invasion of Ukraine — the long-run economic outlook for New Zealand, however, is optimistic. This is thanks to the government's strong response to Covid-19, and their awareness that economics is inherently about people and that the best economic response is in fact a health repose.

Last week, the International Monetary Fund (IMF) released a report saying "New Zealand's economy has reached a strong cyclical position, enabled by sound management of the COVID-19 crisis despite intermittent setbacks". ANZ is currently forecasting (more information on page 16) that by June of 2023, wage growth will sit above inflation and will remain this way for the rest of the year. There is currently no predictions of a looming recession and as a result, New Zealand is in a great position to build back better from the last two years.

Going forward we look to release these bulletins monthly. Next month we will be providing an in-depth analysis into the recent child poverty statistics and sharing our thoughts on the upcoming May 2020 Budget.

Naming

Previous rounds of the economic bulletin were called the EconoBill - Named in honour of Dr Bill Rosenberg. The title EconoCraig just seems odd and frankly a bit rude to my colleagues.

As a consequence, the update from this point from this point forward will be known as the EconoLex, after my 3-year-old son Alexander. It's a reminder that in whatever we do, we should be designing economic policy for benefit of the next generation, and not just temporarily enriching ourselves at their expense.

Wellington median rent hits 97% of minimum workers take home pay

Rent and disposable income

The Government has announced that the minimum wage will increase to $21.20 per hour on April 1 2021. The CTU had called for the minimum wage to be set at the living wage. This increase will see a 40 hour per week minimum wage worker $48 (before tax) per week better off — after tax and ACC they'll have $38.93 per week cash in hand. If you take into account 3% KiwiSaver deductions and student loan repayments, they'll be $32.26 better off each week.

Before the announcement, the weekly take-home pay of a minimum wage worker was $667.73 after tax and ACC (based on a $41,600 before tax annual salary). Now at the new rate of $21.20, the same worker will take home $706.66 after tax and ACC.

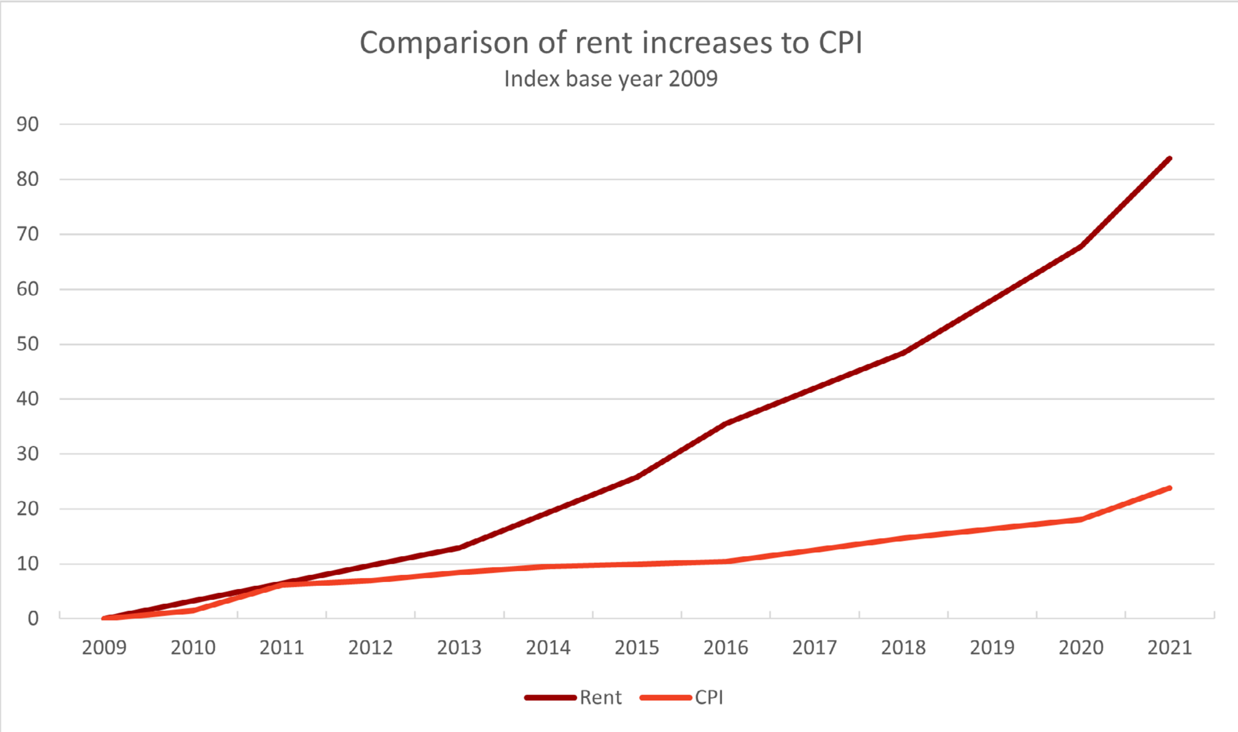
According to Trade Me's latest Rental Price Index data for January, New Zealand's national median weekly rent is now $570 or 85% of a minimum wage worker's take home pay (before accounting for student loan or KiwiSaver deductions). From April, at the new minimum wage rate of $21.20 that percent, while lower, is still an incredibly high 80%.

In January 2022, median rents in Wellington reached $650. This is 97% of a minimum wage worker's take home pay (92% from April 1). In Porirua, rents reached $655 and $640 in Kapiti Coast. In Wellington's CBD median rents have reached $675, an now outstrips a minimum wage worker's take home pay by $7.20. In Auckland, median rents have reached $610 and 91% of a minimum wage worker's take-home pay (86% from April 1). Within Auckland, rents in North Shore City were $650, Rodney $630, Manukau City $620 and Papakura $620.

Thanks to the minimum wage increase, some renters will be better off. If you live in Auckland, on a $20 an hour minimum wage you're left with $57.73 after rent, now at $21.20 you'll have $96.66 leftover to cover everything else from food, water, electricity, internet, transport, clothing, medical etc. If you live in Wellington, after rent you currently have $17 leftover, from April you'll have $56.66, and this is if next month's rents don't increase further.

However, what if you're paying off a student loan and contributing to KiwiSaver? Your net take home pay is $626.26 – not enough to cover rent in Wellington. It's all very reminiscent of a Charles Dicken's era level of inequality.

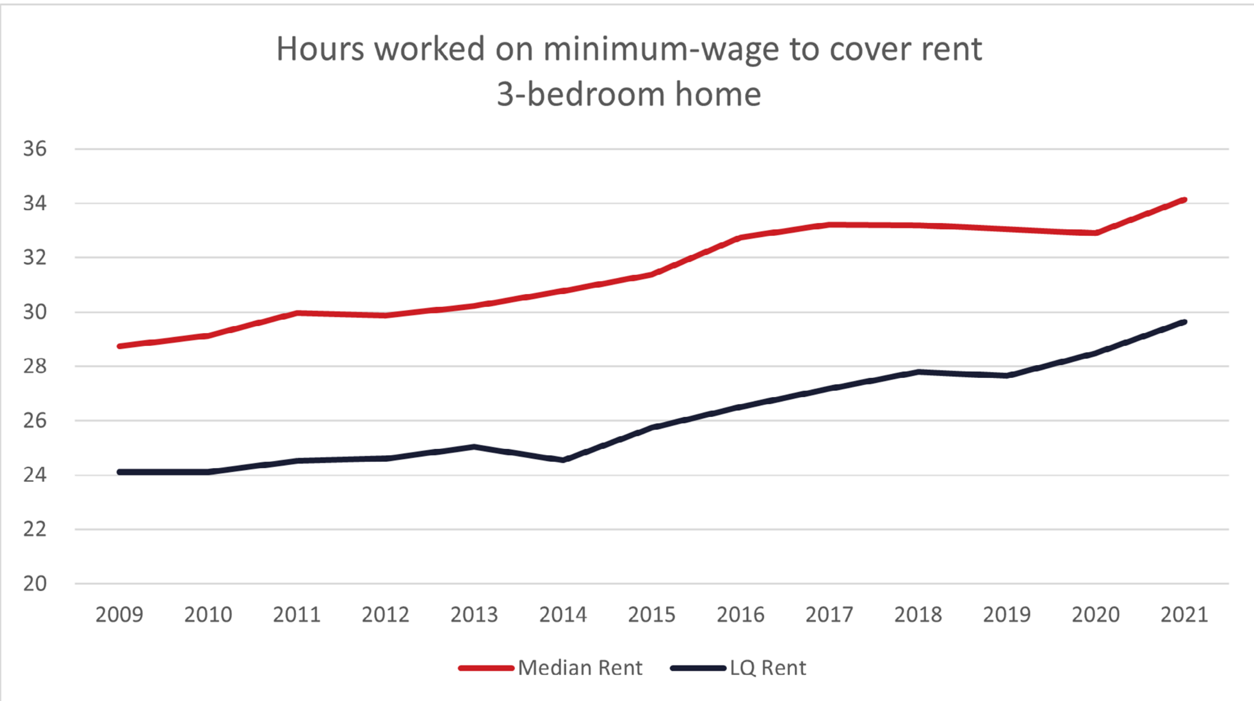
When you look at median rents for a standard 3-bedroom home, provided by MBIEs tenancy bond data (which varies from Trade Me's Rental Price Index) the cost of living doesn't look much better. In 2000, a minimum wage worker paying the lowest quantile of weekly rent — some of the cheapest and poorest quality homes on the market — would spend 56% of their income on rent. In October 2021 it's now 74%. When you look at median rents, in 2000 it was 66% of income spent on rent, now it's a whopping 85%.



Source: *[Detailed quarterly report, January 1993 to December 2021](), accessed 22/03/2022. Median rents for a 3-bedroom house as at October of each year.*

CTUs minimum wage to housing index

Following these statistics above, the CTU has decided to create a new index, the **NZCTU Minimum Wage to Housing Index,** which looks at how many hours a minimum wage worker must work in order to meet median and lower quantile rents in New Zealand. This index is a good indicator of who is winning from wage increases — worker or landlord?



Our calculations, based on MBIEs Tenancy Bond Data, show that in 2009 a minimum wage earner would need to work 24 hours to cover the cost of rent for a standard 3-bedroom home in the lowest quantile on the market. Fast forward to October 2021 (the latest information released), and a minimum wage earner on $20 per hour would need to put in an additional 6 hours labour, almost a full day's extra work, just to cover rent for the same property — meanwhile, the landlord is double profiting on both rising rental income and untaxed capital gains.

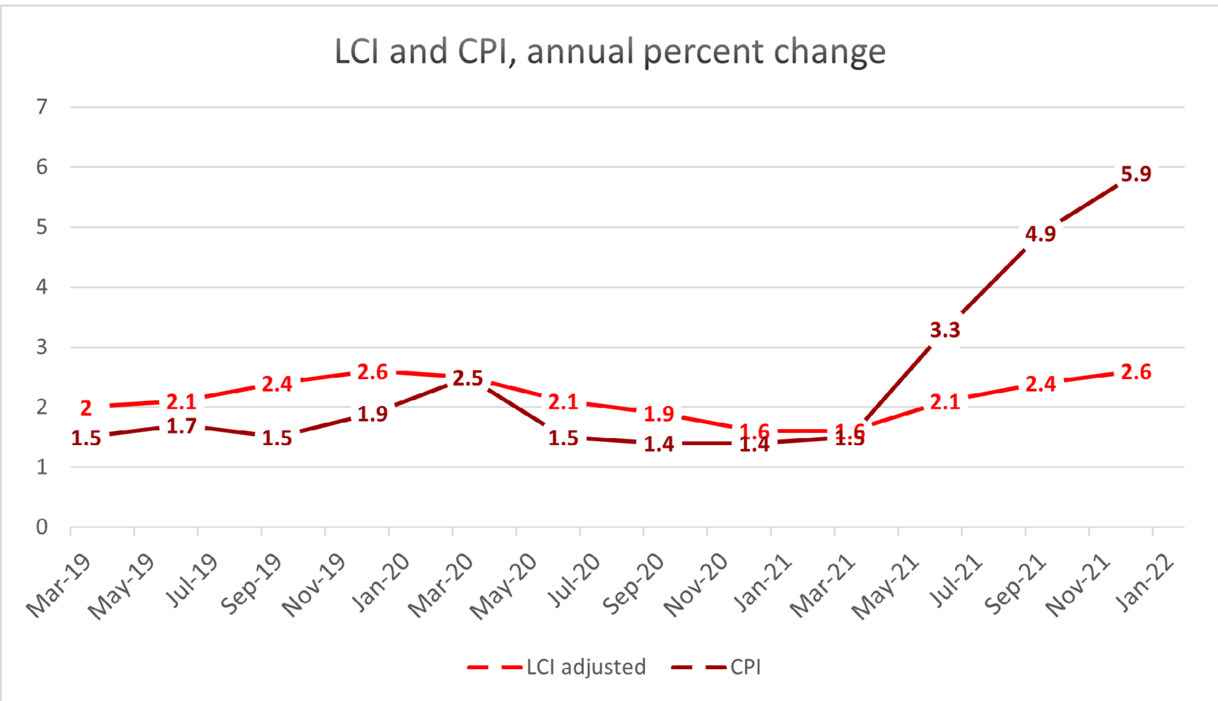
If we wanted to say that 24 hours labour on minimum wage is the standard we want to maintain, then the minimum wage today would need to be $25.17 before tax to keep up with lower quartile rents.

These changes show the growing pressures on renter's household incomes. According to figures released by ASB in October 2021, 40% of its customers have less than $1000 available in their chequing, savings and credit card accounts. ASB also reports that 38% of their customers are living pay-day to pay-day, and 49% are struggling to make ends meet.

One of the best ways in which the Government could support essential workers would be to support the CTU's call for the minimum wage to be set at the living wage. This would both lift the incomes of some of the poorest in the country, and make sure that we can all celebrate a more inclusive NZ.

Labour Market Data

With unemployment at 3.2%, we should expect a labour market that's shifted from an employer's market to an employee's market. Currently, many employers are finding it hard to find both skilled and unskilled labour – meaning employee bargaining power should be helping to push wages up. But how much of this is true and what's the wider context?



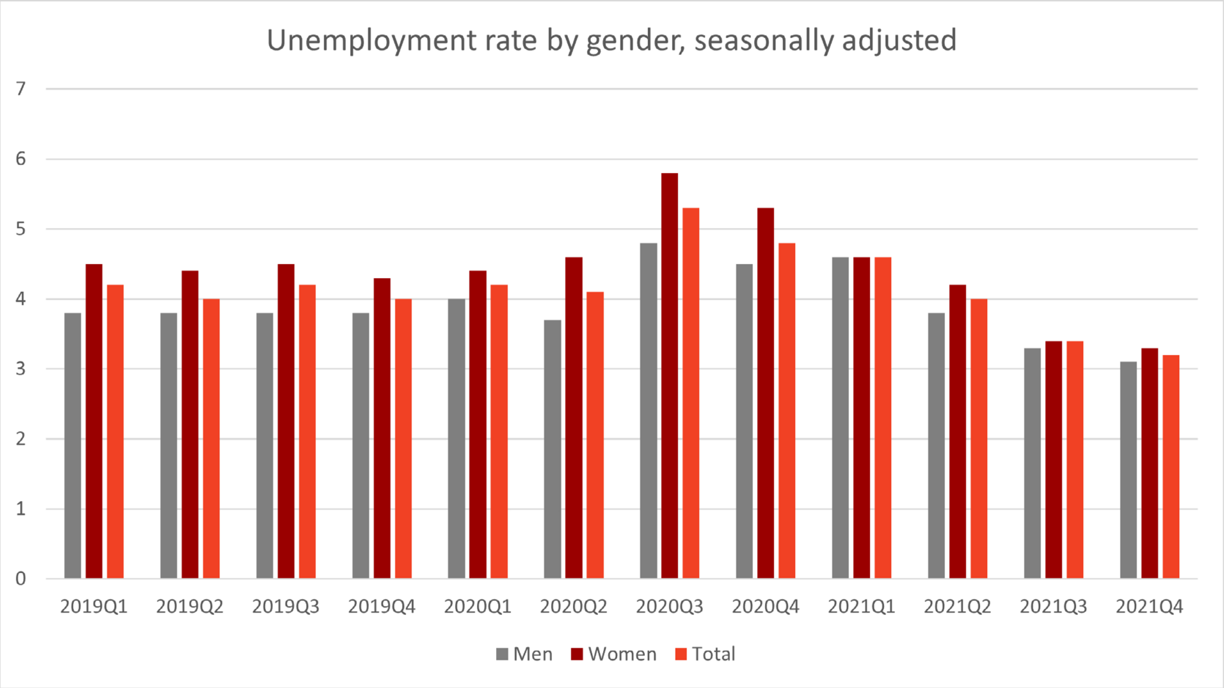
The first thing to note is the growth in wages compared to inflation. Yes, wage inflation (LCI) increased by 2.6%, however, CPI at 5.9% has outstripped wages by 3.3%. Real wages and worker's purchasing power has declined. Put simply for the December 2021 quarter, Kiwi workers have effectively taken a pay cut and will be feeling the pressure of that increased cost of living, including with essential everyday purchases such as groceries, petrol and rent.

StatsNZ's most recent weekly employment indicators series, (which uses Inland Revenue's payday filing to collect data), shows that for the week ended 6 February median income, in comparison to the week prior, increased 1.4% and the number of paid jobs was up by 10.5k and increased across most industries:

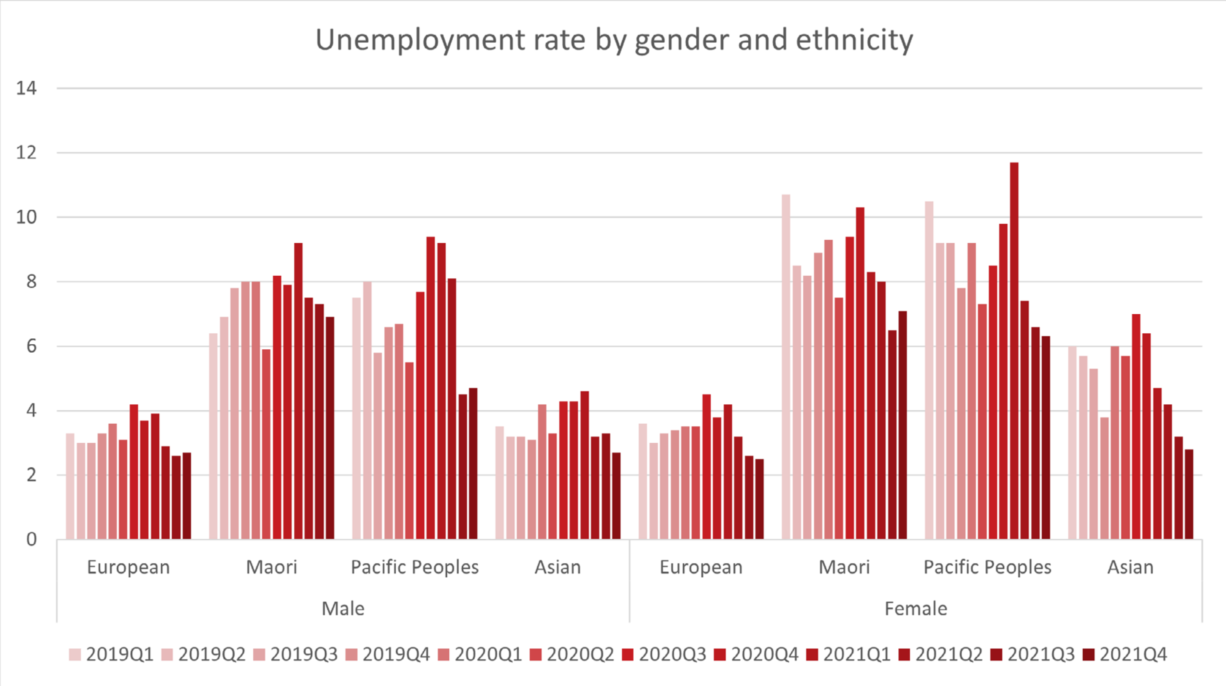
- primary industries were down 1,480 or 1.33 percent
- goods-producing industries up 2,600 or 0.58 percent
- services industries up 8,250 or 0.48 percent
- unclassified industries up 1,200 or 2.04 percent

The unemployment rate

Unemployment statistics for 2021, show a substantial decline in people who have been **unemployed for longer than one year**, falling from 15.9% in Q1, to 12.4% in Q2, 8.8% in Q3, but climbing slightly in Q4 to 10.7%. The proportion of people unemployed for 3-6 months has also fallen significantly, dropping from 24.2% in Q1, 21% in Q2, to 11.7% in Q3 and remaining stable in Q4 at 11.8%. The unemployment rate for those who have been unemployed for 6-12 months has also decreased consistently falling from 28.3% in Q1, to 22.2% in Q2, 20.1% in Q3, and 19.4% in Q4.

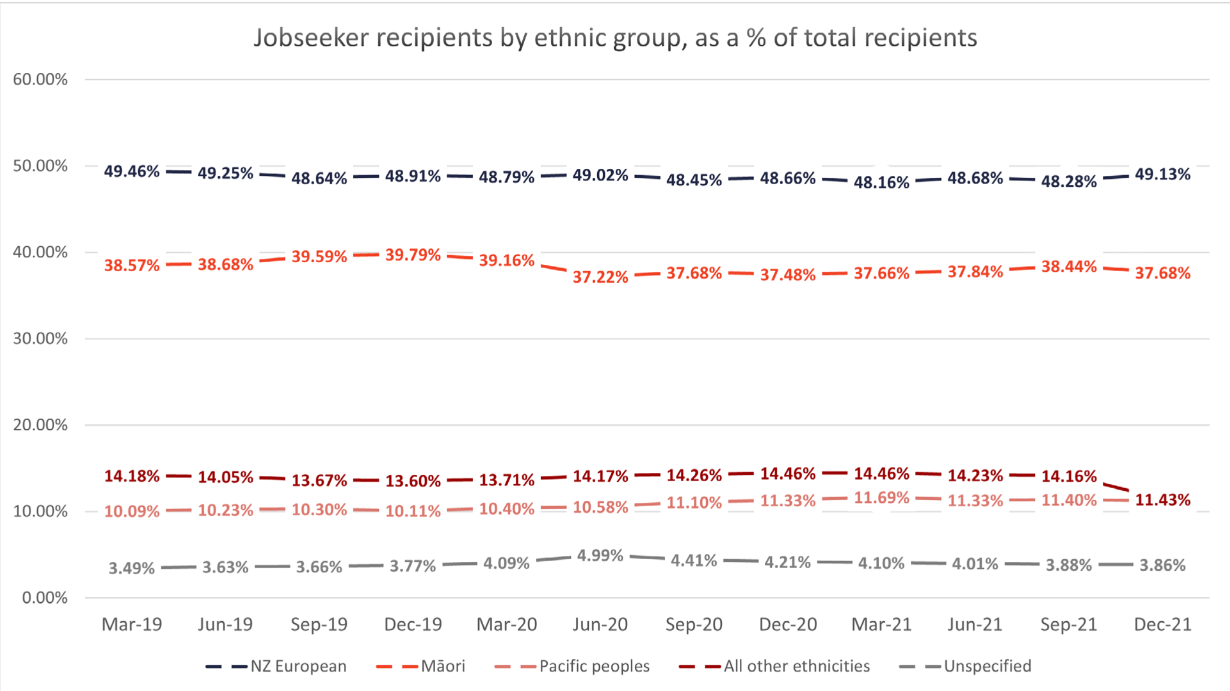


The above graph *'Unemployment rate by gender, seasonally adjusted'* shows a trend where the female unemployment rate consistently tracks higher than the male unemployment rate. This trend appears to have reduced in 2021. For the December 2021 quarter female unemployment is at 3.3%, while male unemployment is at 3.1% — this is a drop in unemployment across the board in comparison to the same quarter last year when unemployment was 4.9%, female unemployment was 5.3%, and male unemployment was 4.5%.

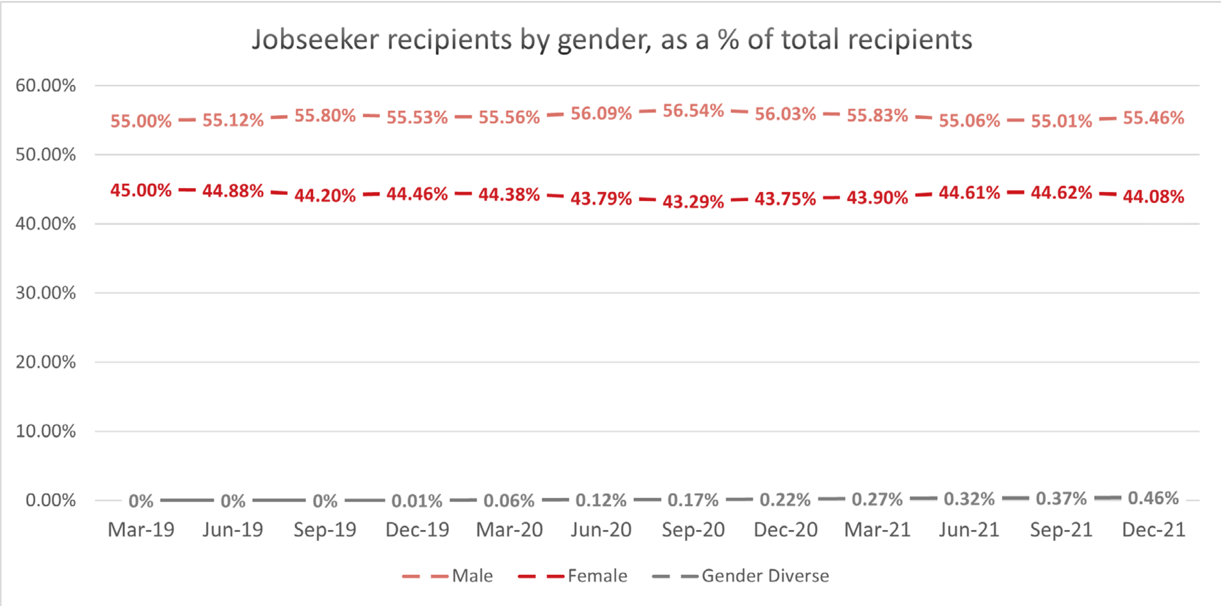


Jobseeker Benefits

The graphs below on Jobseeker recipients, sourced from the [Ministry of Social Development's latest benefit fact sheet], shows recipient numbers have remained fairly stable in light of Covid-19. It's important to note that while Māori make up 17.1% of New Zealand's population (based on StatsNZ's latest [estimates]), they account for 38% of Jobseeker recipients.

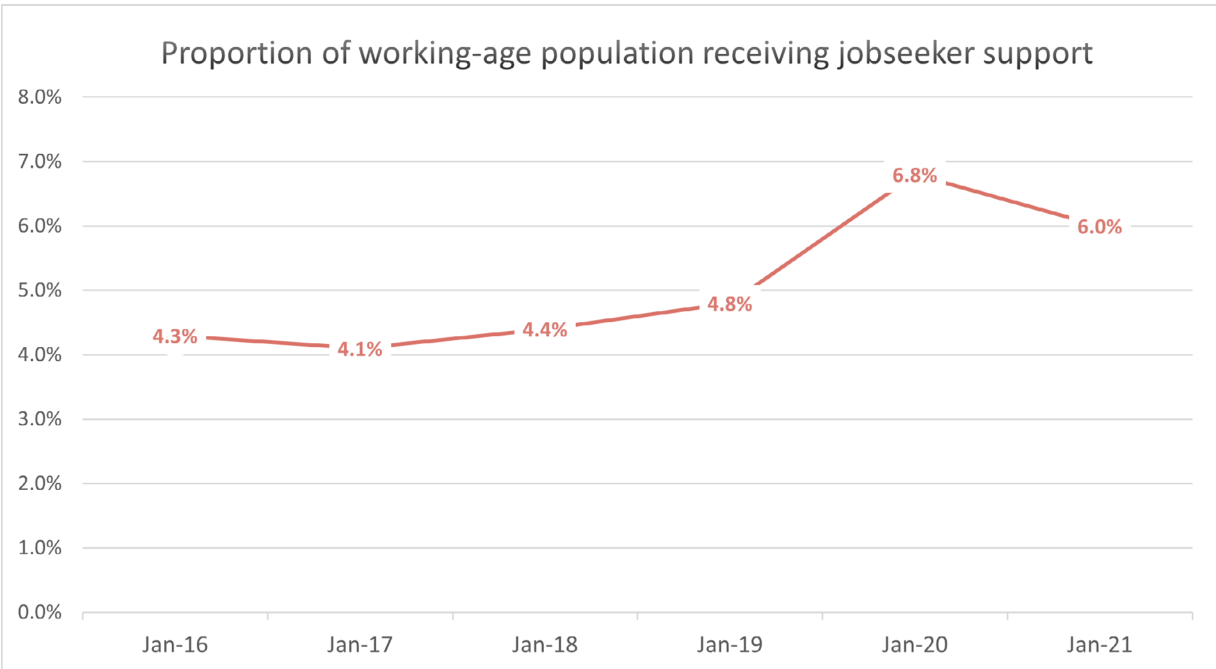


The graph below '*Jobseeker recipients by gender, as a % of total recipients*' shows that men are more likely to be on a Jobseeker unemployment benefit than women. This has not changed significantly for the past two years.



As of December 2021, there were a total of 187,989 people on Jobseeker support, up from 183,165 people in November 2021. However, this is a decline in the number from October 2021, when 192,612 people were receiving Jobseeker support.

Out of the those receiving Jobseeker support, 57% were considered work ready while the rest were on Jobseeker support - health condition and disability. In comparison to the previous quarter, Jobseeker (work ready) recipients have declined by 5,694 people. It is unclear as to whether those who have had their payments cut off have joined the workforce.



Job vacancies online - all vacancies index

MBIEs all vacancies index shows that the number of jobs advertised online for the December quarter was relatively unchanged over the previous two quarters and are still well above pre-Covid-19 levels. The number of jobs advertised online increased in 4 out of 9 industries, particularly in Health care (up 7%), Manufacturing and Primary (both up 3%). The IT and Education sectors experienced decreases in advertising over the quarter (down 4% and 2%, respectively).

The biggest increases in vacancies across occupation groups were in:

- Professionals group (up 6%)
- Community & personal services (up 3%).

Advertising fell the most for machinery operators & drivers (down 4%). Job advertisements grew in 3 out of 5 skill levels, with the biggest increase in semi-skilled jobs (up 4%).

At a regional level jobs advertised online increased in 5 out of 10 regions, with the largest increases in:

- Otago/Southland (up 3%),
- Auckland (up 2%).
- Manawatu-Whanganui/Taranaki (up 2%).

Employment by industry

For the December 2021 quarter, in comparison to September 2021, the HLFS showed female employment across all industries has increased by 9,900 workers (0.73%) and for men it has increased by 17,700 workers (1.19%). Numbers over the past 12 months (Dec 20-Dec21) have male employment up 2.4% or 35,200 workers and women employment up 4.9% or 65,900 workers.

Within industries the main increases for the December quarter were in agriculture which was up by 12,800 (7%) workers, wholesale and trade was up 5% by 5,000 workers; rental and real estate services were up 7.1% or 4,100 workers; public administration and safety was up 6.6% or 12,100 workers. Employment within the mining industry dropped by 28% from 6,000 workers to 4,700 workers. Electricity, Gas, Water and Waste Services dropped 7% or 1,700 workers. Transport postal and warehousing was down 6% or 7,100 workers.

Employment in health care and social assistance was down 0.6% or 1,800 workers - when broken down by gender, women in this industry declined by 2,500 (-1%) workers, but there was 700 (0.7%) more men employed in December compared to the previous quarter. For the year, Dec 20-Dec21, employment in the sector dropped by 2,600 (0.9%) workers — driven by a 6,200 (3%) drop in women's employment alongside a 3,500 (6%) increase in men's employment.

Youth employment

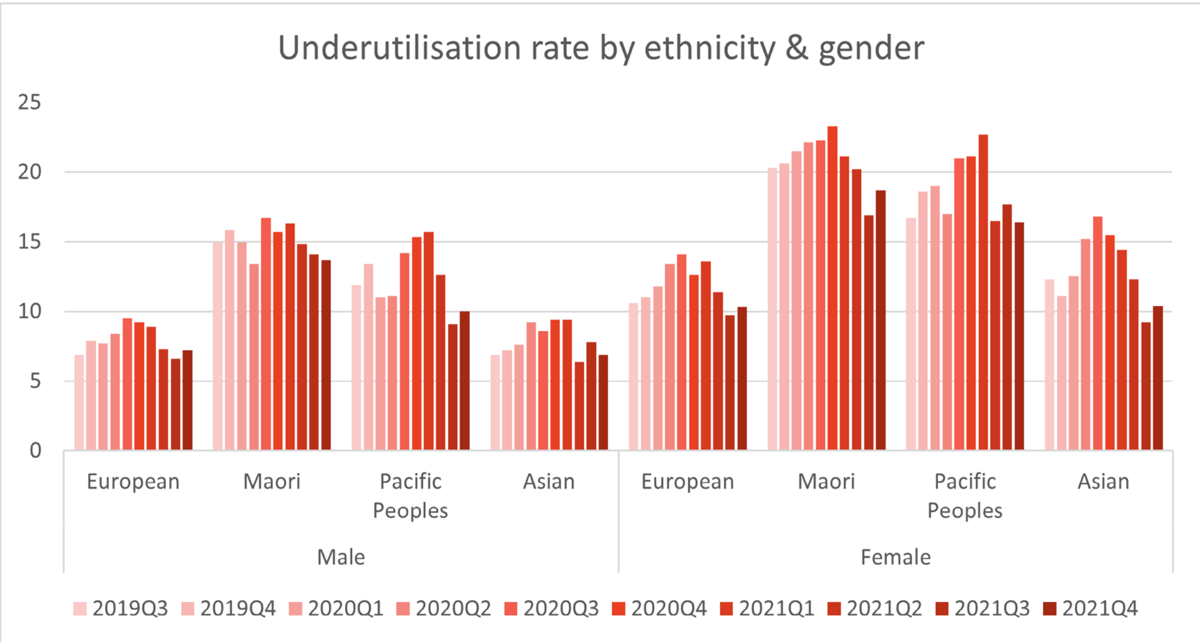
According to the household labour force survey released by StatsNZ for the December 2021 quarter, the youth rate for 15-24 year olds not in education or training (NEET) increased marginally to 11.3% for the December 2021 quarter, up from 11% in the September 2021 quarter. This number still represents a decrease in youth unemployment after rises associated with the initial COVID-19 impact.

When broken down by gender the NEET rate was 10.3% for men (down from 12%) and 11.4% for women (down from 12.4%). The impacts of COVID-19 saw youth unemployment rates rise. In the September and December 2020 quarters youth unemployment rose to 13.2% and 13.8% respectively. This is in comparison to the September 19 quarter when it was 10.5%.

Since then, youth employment has rebounded significantly with the current unemployment rate of 9.6% for youth aged 15-24, bringing it close to pre-COVID-19 levels. For comparison, this is almost three times the national average of 3.2%.

The underutilisation rate

The underutilisation rate (using data from StatsNZ's Household Labour Force Survey) provides a broader measure of untapped potential in the labour market.



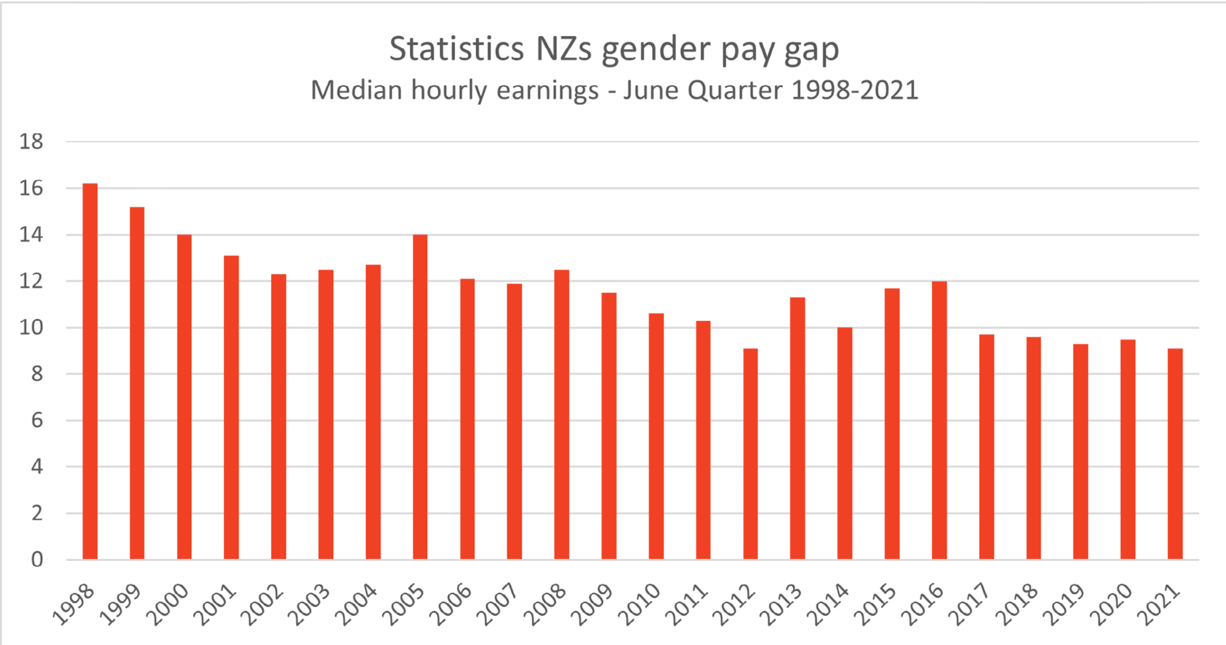
It includes:

- the unemployed
- those who are working part-time but would prefer to be working more hours or in full-time employment
- those who want a job and are available to work, but are not actively looking
- and those who are unavailable to start work but are looking for a job as they will be able to start work within the next month.

Underutilisation rates across gender and ethnic groups appear to be trending down. However, underutilisation rates are still significantly higher for Māori and Pacific men, and even more so for again for Māori, Pacific and Asian women. This suggests that we are some distance away from full employment for these groups.

Gender and ethnic pay gaps

In our August 2020 Bulletin, Andrea Black looked at data released in the June 20 quarter, which included the first Covid-19 lockdown. In the June 20 quarter, the unemployment rate was at 4% — surprisingly low considering the many predictions of high unemployment resulting from the lockdown — and the underutilisation rate was at 12%. A further look at these statistics showed that women disproportionately bore the brunt of the lockdown in terms of unemployment and underutilisation. Now, over a year later, we look into the most recent statistics on gender and ethnic wage gaps, plus unemployment and underutilisation rates.

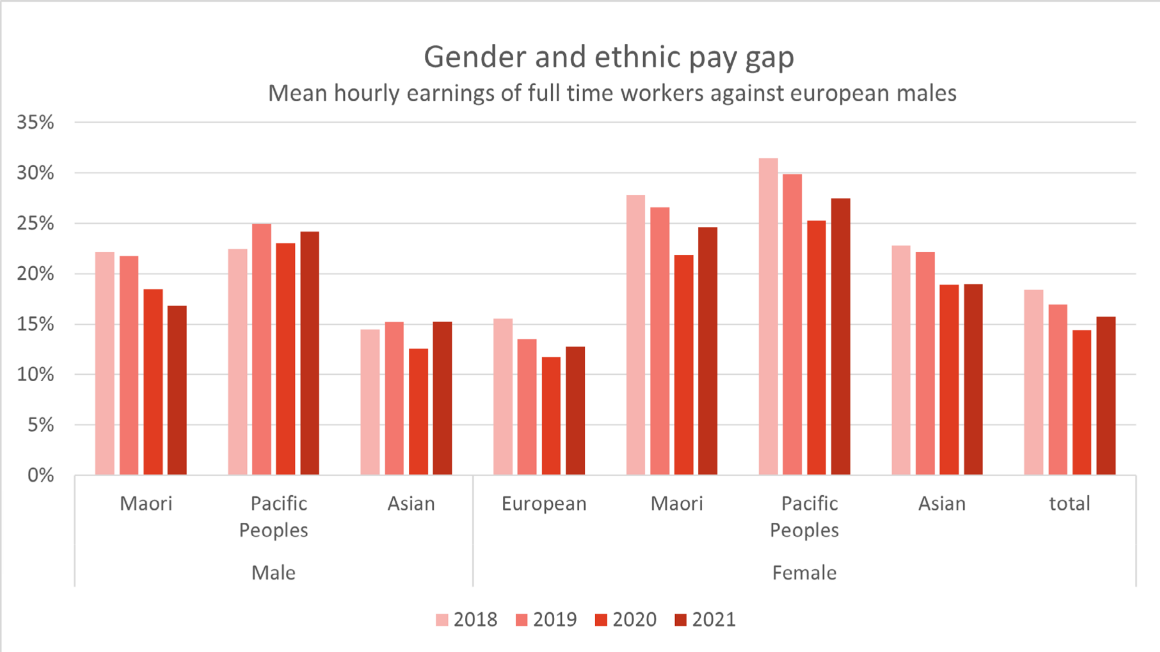


Looking at gender and ethnic pay gaps, we compare the total mean hourly earnings of full-time workers, from data sourced from StatsNZ's Household Labour Force Survey (HLFS) which is released each year during the June quarter. The HLFS specifies that a full-time worker is someone who usually works 30 or more hours per week.

According to data released by StatsNZ, the gender pay gap has remained relatively unchanged since 2017 (9.7%) and June 2021 (9.1%). However, their latest update, median hourly earnings for women increased by $0.80 (3.1%) to $26.37, while earnings for men increased by a slightly smaller amount of $0.74 (2.6%) to $29.00.

While StatsNZ uses median hourly earnings, the CTU uses the mean. This is because the median is heavily skewed by the larger proportion of men than women at the very top of the pay scale. If we're seriously looking at equal pay and opportunities for men and women, with an equal number of women in senior positions to men, then a metric that accounts for that is preferable. For example, the median pay gap for men and women is 9.1%, while the mean pay gap is 10.8% (up from 10% in 2020).

From the graph on gender and ethnic pay gaps, we can see that while the gap between Pakeha men and women of all ethnic groups sits at 14.5%, there's quite a startling large wage ethnic pay gap, which while it trended down in 2020, the gap in most instances picked back up in 2021. The graph below provides a breakdown of the pay gaps by gender and ethnicity from 2018-2021.



Gender and ethnic pay gap - mean hourly earnings of full-time workers*

	Male			Female				
	Māori	**Pasifika**	**Asian**	**European**	**Māori**	**Pasifika**	**Asian**	**Total**
2018	22.2%	22.4%	14.5%	15.5%	27.8%	31.4%	22.8%	18.4%
2019	21.8%	25.0%	15.2%	13.5%	26.6%	29.9%	22.2%	16.9%
2020	18.5%	23.0%	12.6%	11.7%	21.9%	25.3%	18.9%	14.4%
2021	16.9%	24.2%	15.3%	12.8%	24.6%	27.4%	19.0%	15.7%

**Against Pakeha males*

It's clear Aotearoa has a long way to go in achieving an equitable and inclusive economy. An economy and labour market that leaves whole sectors of the population behind is not good enough. Since 2019, public service agencies have been creating gender pay gap action plans and the requirements now include the reporting of ethnicity pay gap (EPG).

Pay gap registry

MP's in the education and workforce select committee are conducting a briefing into pay transparency. The Mind the Gap campaign submitted to the select committee proposing a framework for a New Zealand law and asking the Government to mandate pay gap reporting because "when we know what they pay gaps are, we can get to work on closing them". According to Mind The Gap Campaign Manager Dellwyn Stuart only 20% of the pay gap can be accounted for by things like experience and qualification, the other 80%, can't be attributed to anything, which suggests both bias and discrimination.

Mind The Gaps voluntary pay gap registry went live on International Women's Day - 8th March 2022 - and some of the results may shock you (or not?). Because the registry is voluntary, some businesses use mean and others use average and some report both.

- Female staff at Bank of New Zealand (BNZ) earn on average 30% less than their male colleagues
- Female staff at Westpac earn on average 28.5% less than their male colleagues
- Female staff at ASB earn on average 26% less than their male colleagues
- Female staff at ANZ earn on average 22.4% less than their male colleagues
- Female staff at Spark earn on average 28% less than their male colleagues
- Female staff at AIA Insurance earn on average 19.1% less than their male colleagues
- Xero reported a global pay gap of 11%, a New Zealand pay gap of 17%.
- TVNZ reported a pay gap of 3.2% (using the mean hourly rate) for the 2020 Financial year
- Air New Zealand on the other hand reported a pay gap of 1.69%
- Z Enegry reported a median pay gap of 7%, when executives were excluded this dropped to 5%

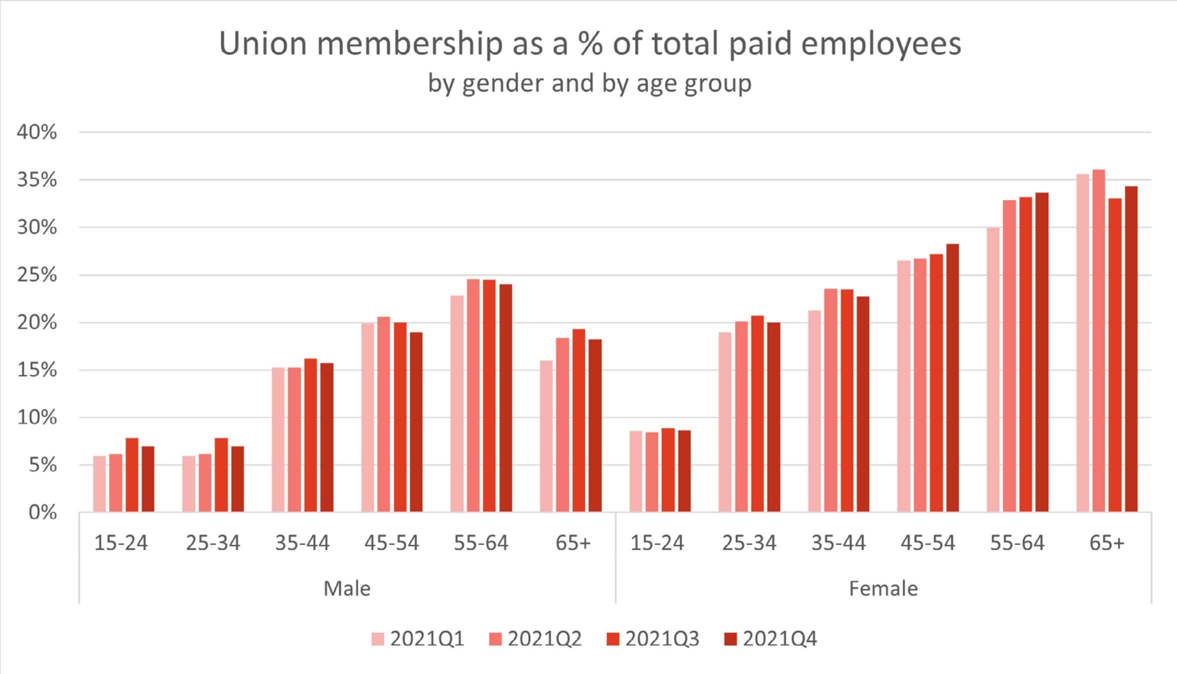
The cause of many of these large gaps that far outstrip the average of around 9.1% in the finance sector is due to more men than women in high salaried specialist roles, while women tend to work in lower-paid customer facing and call-centre roles.

Mind The Gap asked 160 of New Zealand's largest employers to share data on the gender pay gap, but 67% refused. Which begs the question, if those who voluntarily shared their company have up to a 30% gap, what is going on with those other companies? We should get behind Mind The Gap's campaign for the Government to mandate pay gap reporting. The list of companies who refused can be found at www.mindthegap.nz/registry.

Union membership

Union membership for December 2021 is 453,100 workers, which is 19% of the workforce, this is an increase of 30,800 union members since December 2020.

	Total Union Membership – All Ages (thousands)			
	Union member	Not union member	Don't know	Total paid employees
2019 Q1	410.4	1,694.20	73.9	2,180.00
2019 Q2	413.7	1,725.60	45.3	2,186.10
2019 Q3	411.7	1,723.50	59.1	2,195.80
2019 Q4	413.8	1,744.00	60.9	2,220.40
2020 Q1	412.5	1,738.60	69.6	2,221.10
2020 Q2	423.3	1,709.30	47.6	2,181.40
2020 Q3	419.3	1,677.30	61.3	2,159.30
2020 Q4	425.4	1,697.00	70.9	2,194.90
2021 Q1	422.3	1,696.20	75	2,195.00
2021 Q2	435.1	1,699.30	74.3	2,210.50
2021 Q3	453.5	1,728.70	73.8	2,258.10
2021 Q4	453.1	1,728.20	93	2,276.20



Economic Forecasts

NZIER Consensus Forecast

This NZIER Forecast was released on [21 March 2022](#)

Annual Percentage Change (March Year)	2021/22	2022/23	2023/24	2024/25
GDP	▲ 5.2	▼ 3.6	▲ 2.7	▼ 2.5
CPI	▲ 6.7	▲ 3.5	▲ 2.5	▲ 2.3
Private Sector average hourly wage	▲ 3.8	▲ 4.4	▼ 3.7	▼ 3.4
Employment	▲ 3.3	▼ 1.1	▼ 1.2	▼ 1.3
Unemployment rate (%of labour force)	▼ 3.2	▼ 3.3	▼ 3.6	▼ 3.8
arrows refer to direction of change from last survey				

On February 23, the RBNZ increased the Official Cash Rate once more to 1% from 0.75% and is anticipating the OCR will continue to increase over the next 3 years to 3%. ASB expects the OCR will reach 2.75% by early next year.

Gross domestic product

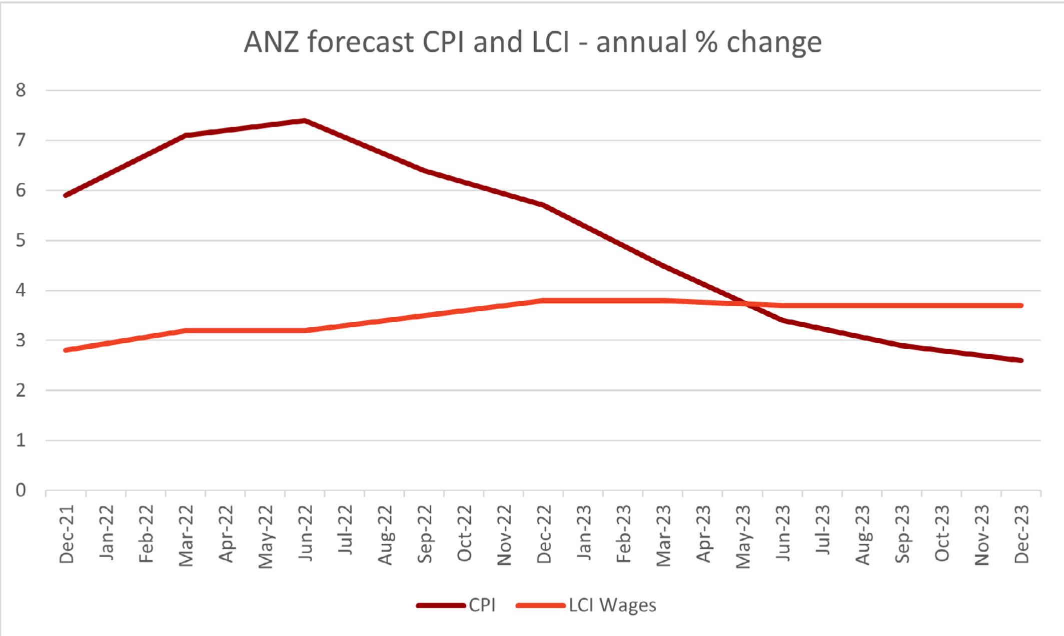
Annual GDP growth for the December quarter of 5.6% shows the resilience of the New Zealand economy. Together with record low unemployment data, the economy appears to have weathered the Alpha and Delta phases of the COVID-19 outbreak in better shape than many of our international peers. It also demonstrates the value of the support provided to the economy during that period.

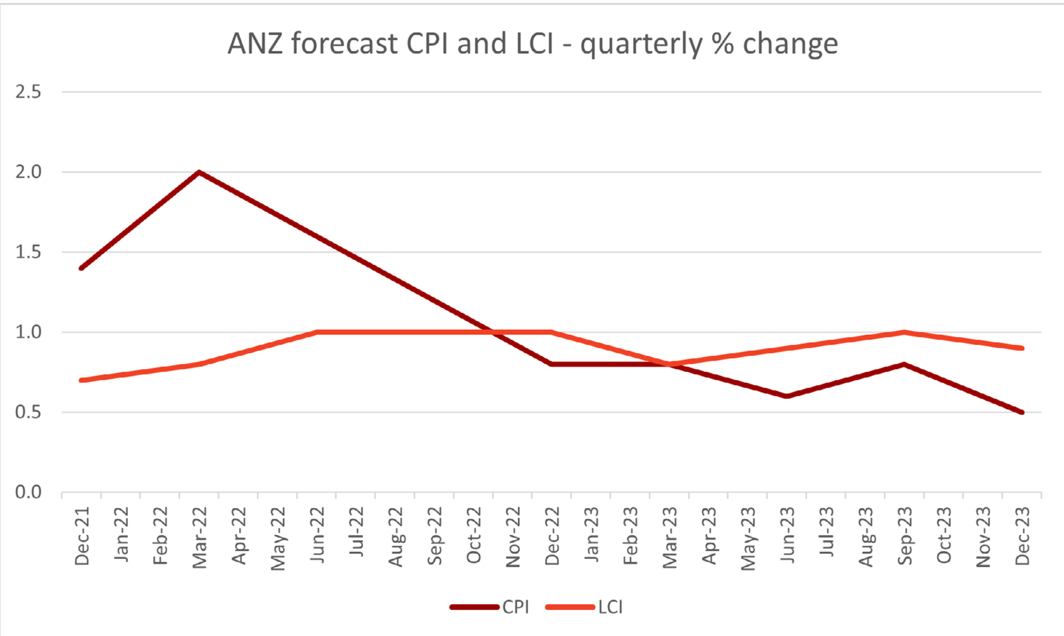
On a per-capita basis, NZ GDP growth increased by 5%, with growth registered in 13 out of 16 sectors of the economy. Growth was particularly strong in construction, wholesale trade, and retail & accommodation. Public administration grew at a slower rate than the economy overall. At 5.6% annual growth was at its fastest rate since June 2000. Business investment grew by 14% annually.

Inflation forecast

ANZ's latest economic forecast data released 18 March sees inflation continuing to rise for the first two quarters of 2022 and staying above 5% until December 2022. Their inflation forecasts predict that by June of 2023, CPI will have stabilised around 3% and will sit below the Labour Cost Index at a steady 3.7% over the last three quarters of 2023.

ASB is forecasting that inflation will reach a thirty-year high of 6.5% by mid-2022 and remain above 3% until 2024. NZEI is forecasting inflation to continue to rise above the Reserve Bank's inflation target mid-point of 2% through to 2025.





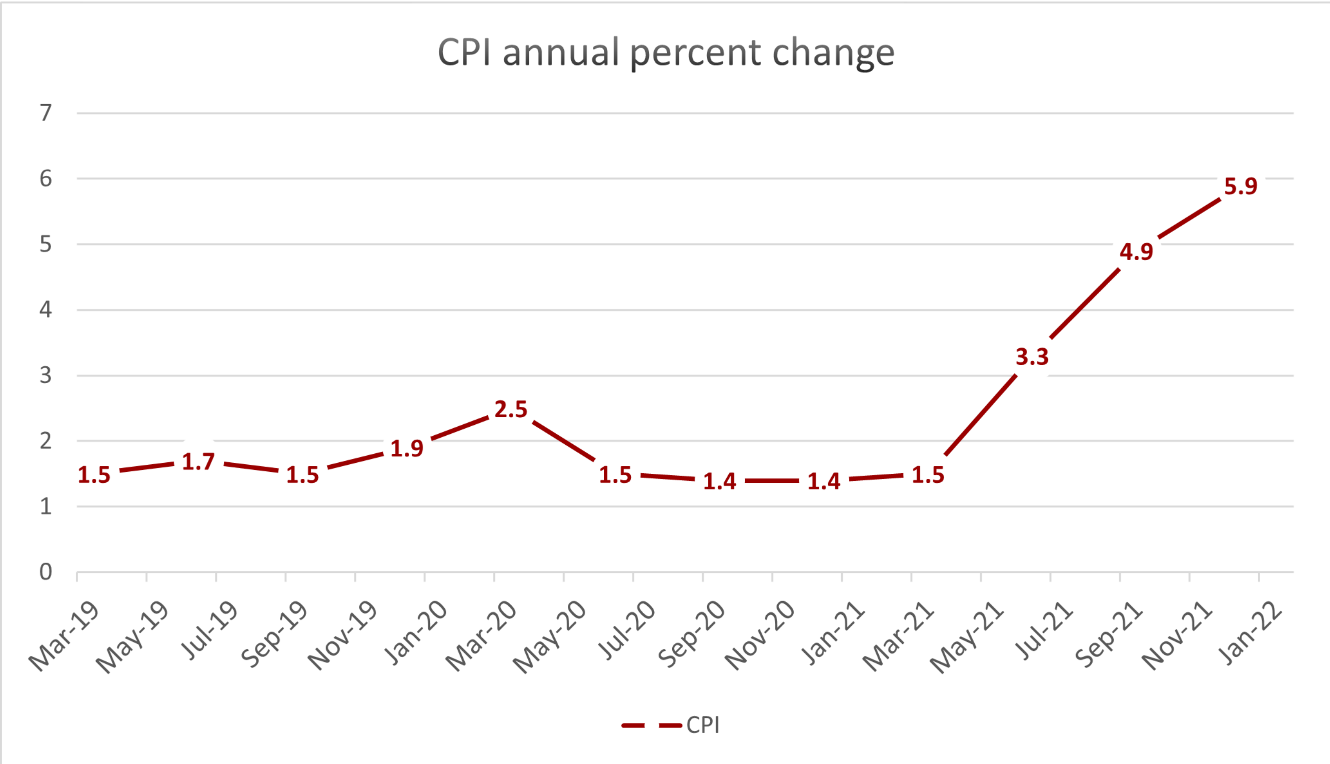
As New Zealand and other countries start opening up to the world again supply chain issues should ease and immigration will pick back up filling skills gaps in our currently very tight labour market.

Inflation

CPI and LCI percentage changes

One important issue currently facing New Zealanders is the gap between wage inflation (2.6%) and overall inflation (5.9%), which has been driven by everyday items like housing, food, and transport. As a result, real wages have decreased as spending power declines.

The annual inflation rate for the December 2021 quarter is sitting at a high of 5.9%. This is the largest annual increase in the CPI since September 2011 when the annual inflation was 4.5%. The June 2011 quarter also recorded a 5.3% increase in CPI.



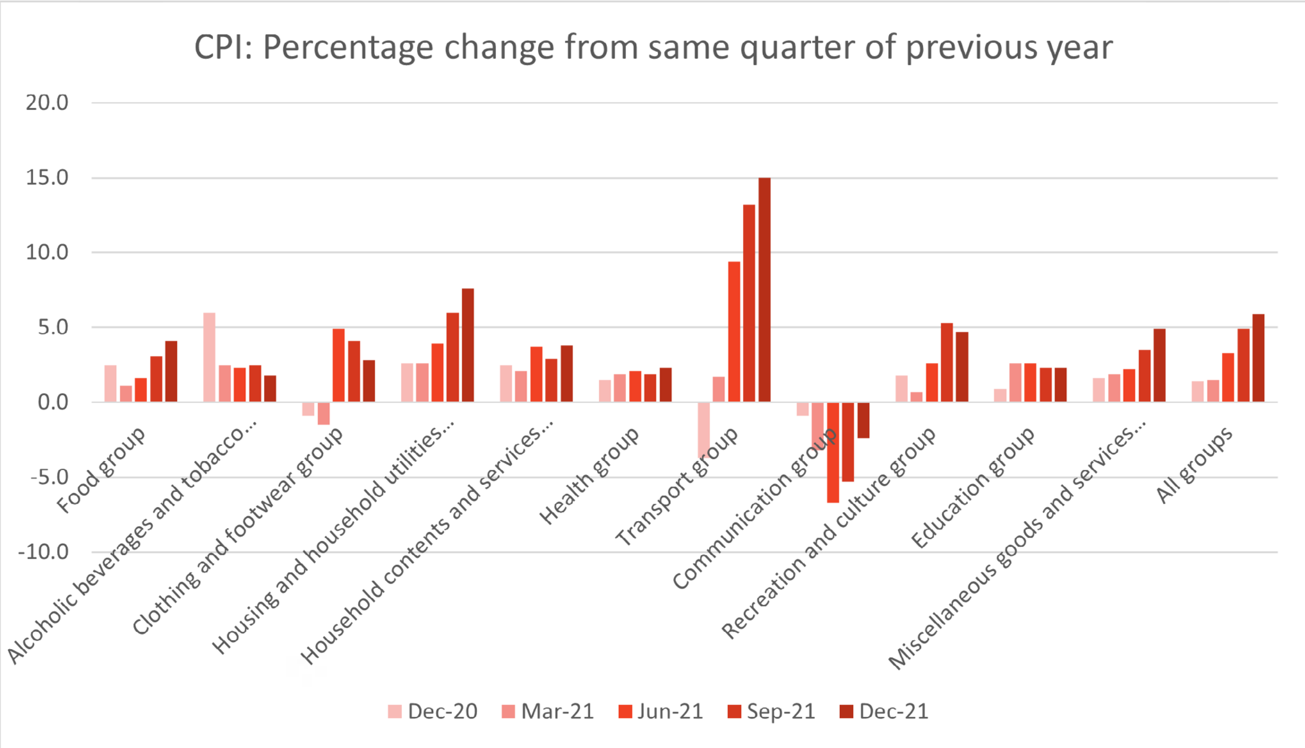
Contributions to CPI

There have been clear contributors that have helped push inflation significantly and have created a substantial amount of worry and uncertainty for many New Zealanders across the country. For instance, housing and household utilities rose 7.6% in the December quarter caused by increases in the cost of purchasing a new house (minus the land) alongside the increases in property rates.

Other key contributors that are important to note is the rise in transport (15%), with one of the big increases coming from the passenger transport services which was up 17% in the September quarter (up a further 2.7% in December), as well as private transport services which showed a 5.4% increase in December.

Another contributor to the rise of inflation was found to be the prices of food – or more specifically the increase in prices of fruit and vegetables – which rose a reported 11% over the September quarter but was down a 10.2% percentage change in December from the previous quarter.

According to StatsNZ, some of the other more notable contributions to the rise of inflation was found when analysing the prices of food. The Consumer Price Index figures back in the September quarter showed food had increased 2.7% from the previous quarter, influenced by the rising prices in fruit and vegetables (11.2% increase), as well as grocery foods (2.9%). The annual change during this time was 3.1%.

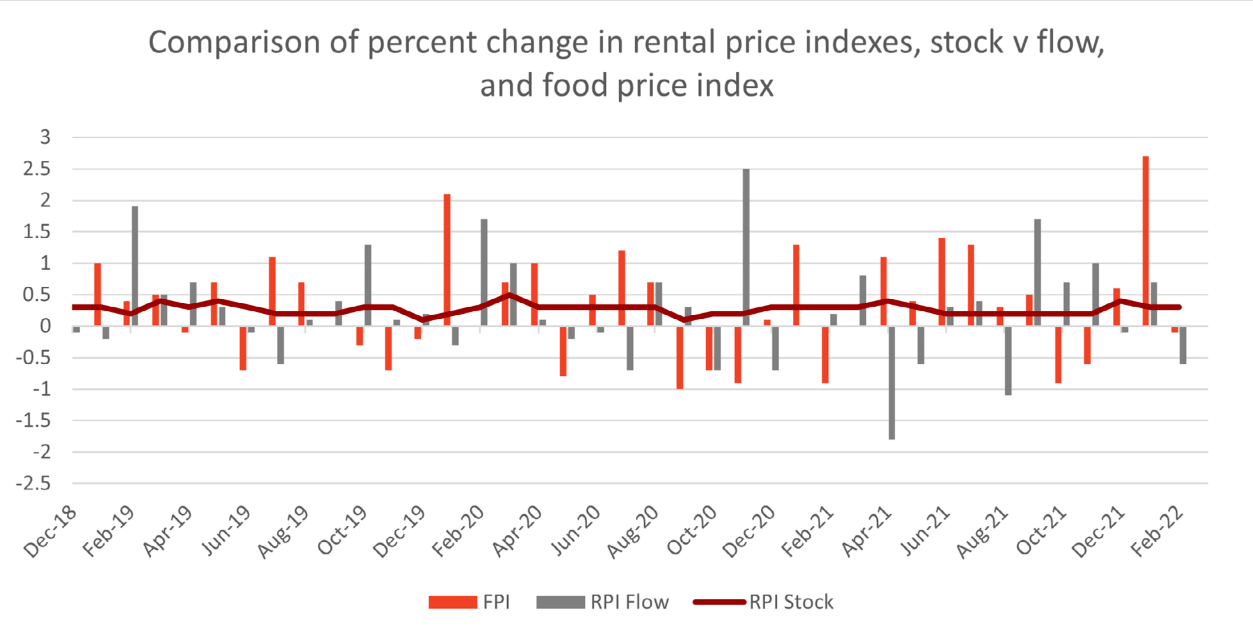


For the December quarter, the CPI for fruit and vegetables has declined 10.2% from the previous quarter. That being said, the CPI data shows fruit and vegetables, while down on the previous quarter, are up 7.2% from the same (December) quarter of the previous year (2020). Restaurant meals and ready-to-eat food is up 4.9%; grocery food is up 3.9%; and meat, poultry, and fish is up 3.1%.

Other contributions to the increase in inflation have come from communications (3.6%) and housing and household utilities group (2.2%), and recreation and culture (2.1%). The main contributors of these increases coming from telecommunication equipment (16.5%), furniture, furnishings, and floor coverings (7.9%), tools and equipment for house and garden (3.6%), audio-visual and computing equipment (4.7%), and major recreational and cultural equipment (4%) — each up in the December quarter compared to September.

Rent and food price index – February see's largest food price increase since July 2011

Both the RPI and the FPI are running well ahead of wages at 2.6%. The higher costs of rent and food for New Zealanders is strengthening the call for the minimum wage to be lifted to the living wage. Statistics New Zealand released figures showing that for the month of February, annual food prices rose 6.8% compared with February 2021 —the largest annual increase since July 2011 when prices increased 7.9%.



Looking back over the past couple of months, for January 2021 compared to January 2020, the annual increase of food prices was 5.9%. In December 2021 there was a 4.5% annual increase in food prices. In January 2022 food prices increased a further 2.7% in comparison to the previous month (1.1% when adjusted for seasonal variation).

According to Stats NZ fruit and vegetables were the largest contributor to February's annual movement, mainly influenced by tomatoes, broccoli, and iceberg lettuce.

Monthly Change (seasonally adjusted)			
	Dec 21	Jan 22	Feb 22
Fruit and vegetables	▲1.1%	▲6%	▲6%
Meat, poultry, and fish	▼0.6%	▲3.6%	▲7.2%
Grocery food prices	▲0.8%	▲0.7%	▲5.4%
Non-alcoholic beverage prices	▼1.2%	▲2.3%	▲2.3%
Restaurant meals and ready-to-eat food	▲0.8%	▲0.3%	▲5.2%

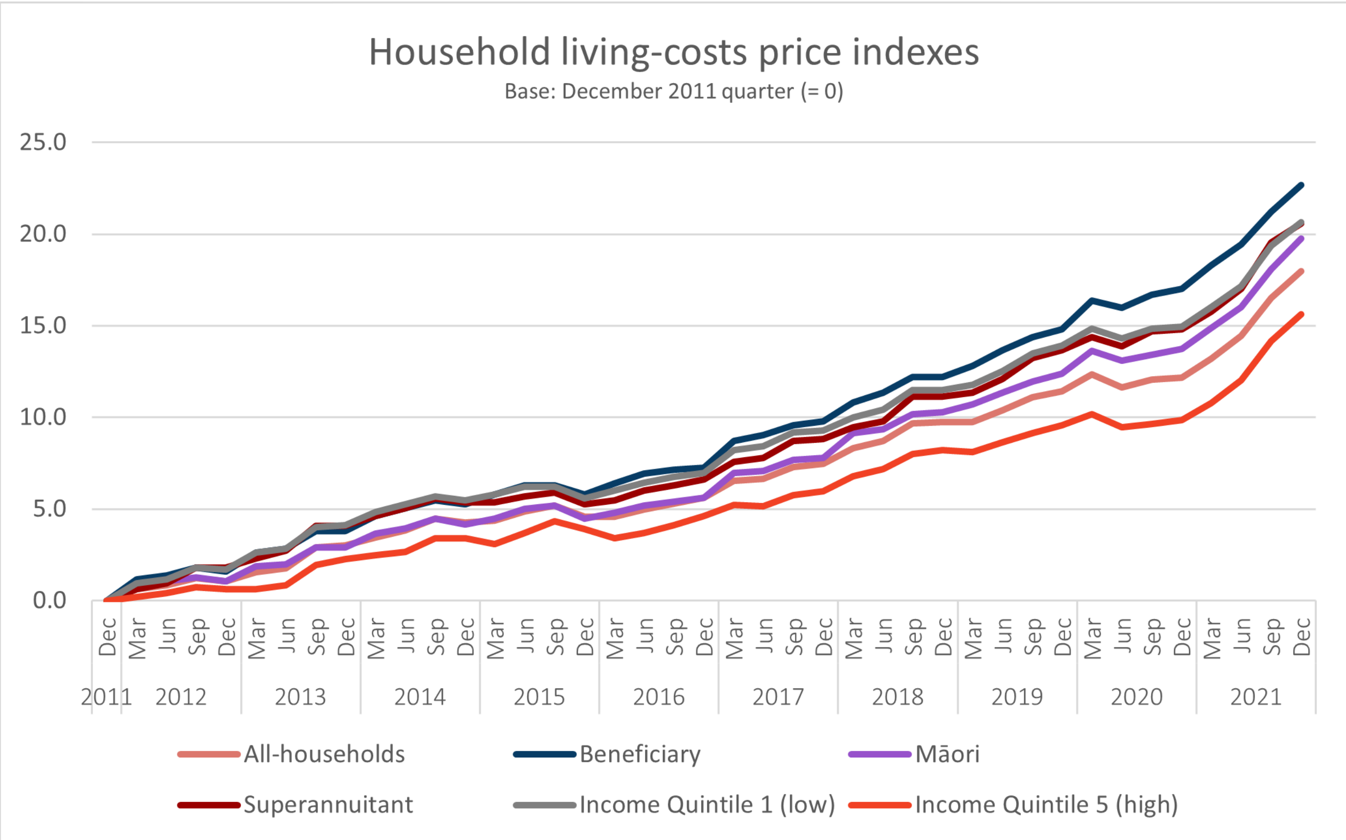
Annual increases in the flow measure of rental property prices across the country:

- February 2022 there was an increase of 4.6%
- January 2022 there was an increase of 5.5%
- December 2021 there was an increase of 5.8%.

Rental price increases are no longer constrained to urban centres – with the highest percentage increases for new rental agreements taking place in the North Island outside of Auckland and Wellington with an annual increase of 10.3% for November, 8.7% for December, 11.3% for January and 8.3% for February (percentage change from the same month of the previous year). Prices also lifted in Canterbury, with an increase of 10.1% in November for new rental agreements followed by 7.7% for December, but stabilising with smaller increases of 3% for January and 3% for February. This data is also supported by information from a Massey University Rental Report that shows a near 10% fall in rental affordability last year.

Household living-costs price indexes (HLPIs)

StatsNZ has released their household living-cost price index for the December 21 quarter. The annual increase in inflation saw Māori hardest hit having experienced inflation of 5.3% compared to the average for all households of 5.2%, next was Superannuitant 5% and Beneficiaries 4.8%.



The groups who are most likely to be affected by the current cost of living are those who already are earning a low income. We can see from the graph that those with the highest income are much less impacted by inflation in comparison to the poorest households. Those who feel the burden of inflation the highest are Beneficiaries, Māori, Superannuitants and those with incomes in the lowest quantile. These households will likely be disproportionately impacted by the rising cost of essentials - food, power, petrol, housing and childcare.

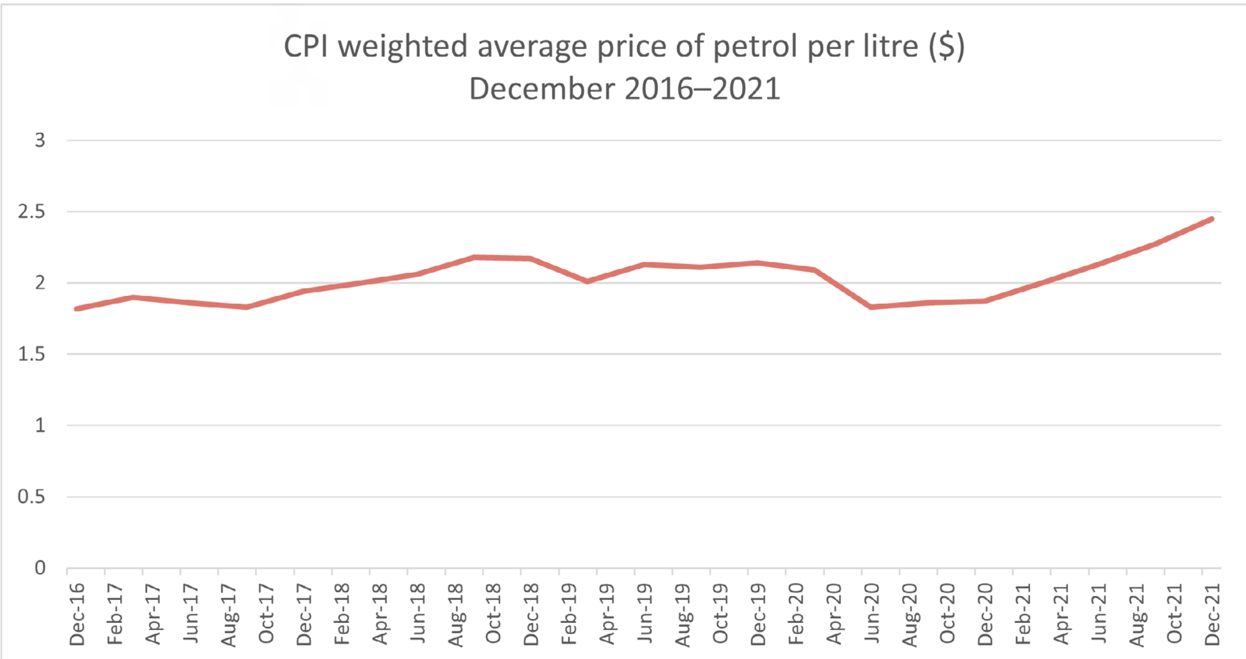
Cost of building a new house

The cost of housing has increased substantially for new-build housing. According to StatsNZ, the average size of a new build in New Zealand is around 155sqm for a one-level home and costs around $360,000 to build. This makes the average price per square metre around $2,325. This cost excludes other notable variables that come with the cost of building a new home including land costs, building consent costs, and design costs.

When looking at the average costs of building by region, we can see that prices vary around the country. For instance, the average cost of building in Auckland is roughly in line with the national median, sitting at roughly $359,000. In Wellington, these prices exceed those of Auckland by a fair margin with the cost of building over $400,000. When compared to the national median, Canterbury has been fortunate enough to sit well below the $360,000 figure, with an average cost of $323,000.

Petrol prices increase

StatsNZ reported that transport costs rose 4.2% in the September quarter, followed by 3.9% in December. This increase was heavily influenced by passenger transport services which rose 16.8% in September and 2.7% in December. StatsNZ attributed this to the higher prices for domestic and international airfares, as well as the growing prices for petrol which itself has risen substantially over the year. Petrol increased by 6.5% in the September quarter, while also experiencing a 22% annual change.



The national average price per litre for 91 Octane, according to StatsNZs December 2021 release, was $2.45, up from $2.27 in the September 2021 quarter, and up from $1.87 in the December 2020 quarter. For the next quarter, we can expect prices to increase again as throughout February petrol prices of $3.00 per litre for 95 fuel have been seen in Wellington and Auckland.

Retail fuel prices in NZ showed the average price for 91 Octoane for the first week of January 2021 was

$2.48, for 95 fuel it was $2.68 and for diesel it was $1.78. This was an annual increase, in comparison to the same week of 2020, of 56.1cents (23%), 56.8 cents (21%) and 56.2 cents (32%) respectively.

For the period of 29th November until 7th March, the average price for premium petrol (Octane-95) was $2.72. The lowest price recorded was $2.60 on the 17th January and the highest price recorded was $3.11 on 7th March. For comparison, the average price globally for this period was $2.51.

On Monday 14th March, the Labour government in response to the ongoing rising costs of fuel announced they will be reducing tax on petrol by 25 cents a litre, effective 11:55pm the same day. The tax is specifically being removed from fuel excise and road user chargers for petrol and diesel. It is estimated to cost $350 million for the fuel tax decrease and between $24 - 40m for the public transport costs. The Finance Minister said the lost revenue will be topped up from the Covid-19 response fund including leftover funding from the end of MIQ and will therefore not impact the Governments investment in roads and infrastructure.

In the same announcement, they also halved the cost of public transport for three months starting April 1. Both policies will be reviewed after three months and may either continue or come to an end depending on what happens with wholesale oil prices, which are currently being pushed up due to economic sanctions being placed on Russia.

Finance Minister Grant Robertson said during the announcement that "The Russian invasion of Ukraine is continuing to undermine and de-stabilise global energy markets and, added to the other inflationary pressures the world has due to Covid supply chain disruptions, this is sadly not over yet". He also said that the Government is committed to ensuring New Zealand is "not at the whim of international oil prices in future, through greater investment from the Climate Emergency Response Fund". Which includes continuing their plans to increase uptake of electric and hybrid vehicles and building the necessary electric infrastructure required to facilitate that transition.

Economic Indicators

Consumer spending and confidence

ASB has reported a steep drop in card spending of 7.8% for February 2022, likely a result of the Omicron outbreak and people staying home more - this was also the second largest drop since August 2021, when the delta outbreak hit.

The ANZ-Roy Morgan Consumer Confidence indicator for February dropped from 98 in January to 81.7, the lowest level since data began in 2004. January's 98 was unchanged from December 2021. An index of 100 is the separation between a pessimistic consumer confidence outlook and a positive one.

Overall consumer confidence is low with most people believing it's a bad time to purchase major household items and perceptions of personal financial situations are low. The number of people who expect to be financially worse of this time next year also dropped into the red for the first time since the data began, dropping 14 points since January.

The combined impact of inflation alongside Covid-19 lockdowns has seen consumer spending decline. According to ASB, during last years September delta level 4 and 3 lockdowns, spending was down, with outflows from Auckland (Level 4) customers' accounts dropping 22%, compared with 5% for the rest of New Zealand, who moved into Alert Level 3 at 11:59 pm August 31 followed by Alert Level 2 September 7. International supply chains and shipping delays are also a contributor to low consumer spending post lockdown - electronic card spending increased by a small 0.9%.

ASB also states that more customers of all ages are choosing to save instead of spend since the pandemic lockdowns began in 2020, with average customer balances being 60% higher in September 2021 than they were in February 2020. This is a strong indicator of a lack of consumer confidence – feeling more of a need to save for a rainy day – alongside people spending less due to working from home.

Retail sales

For the December 2021 quarter compared with September retail sales were up in 14 of New Zealand's 16 regions. On average the volume of retail sales, seasonally adjusted, were up 8.6%, and the value of retail sales (with price effects included) were up 10% ($2.6 billion).

According to StatsNZ data, retail sales in December 2021, were up 5% on December 2020 (seasonally adjusted and adjusted for inflation). For comparison, December 2020 sales were down in comparison to September 2020.

The main movements were (seasonally adjusted with price effects included):

- motor vehicle and parts retailing – up 24% ($865 million)
- hardware, building, and garden supplies – up 35% ($835 million)
- food and beverage services – up 13% ($352 million)
- department stores – up 21% ($257 million).
- supermarket and grocery stores had the largest fall, down 4.6% ($284 million), followed by accommodation, down 25% ($270 million).

It's very normal to expect retail sales to increase in December over the Christmas period.

For the September quarter, which includes the August lockdowns, StatsNZ data shows the total volume of retail sales fell 8.1% in comparison to the previous June quarter.

A closer look into the breakdown of that fall shows a 19% drop in food and beverage services, a 24% fall in department stores, and a 15% fall in hardware, building, and garden supplies. The total value of retail sales also fell 7% in comparison to the previous quarter, with 13 out of 15 industries having lower sale values than the June quarter. The drop in sales was prevalent across 12 out of 16 regions, with Auckland taking the biggest hit with a drop of 15%, followed by Waikato with a 3.3% drop. For September 2021 in comparison to September 2020, retail sales were down 0.05%.

Bonds

10 year Bond Yields have climbed back to where they were in 2017. This is on the back of rising global interest rates. New Zealand's ten year bond rate remains low by historical standards, although higher than the larger economies (US, Australia, UK) that we occasionally compare ourselves with. These rates had sunk to a record low during COVID, and so some bounce back in these rates was expected.

RBNZ Governor Adrian Orr announced plans to reduce its holding of Government bonds, through 'managed sales' of some of the bonds that they purchased as part of their Large-Scale Asset Purchase (LSAP) programme. They announced plans to sell around $5 billion worth of bonds per fiscal year to Treasury's New Zealand Debt Management arm.

The selling of government bonds is one of the RBNZs tools for 'quantitative tightening' (QT). Between March 2020 and July 2021, the RBNZ purchased around $54 billion of New Zealand Government Bonds (quantitative easing) as a part of its LSAP programme, designed to increase economic growth by increasing financial liquidity in the market and making it easier for banks to lend or invest.

Source: *https://tradingeconomics.com/new-zealand/government-bond-yield*

Net international liabilities

- The country's Net International Liabilities as at 30 September 2021, released in December 2021, was $163.9 billion, up from $154.9 billion at 30 June 2021.
- Net international liabilities and net external debt for the September quarter were equivalent to 47.7% and 47.5% of GDP respectively.
- New Zealand's seasonally adjusted current account deficit was $4.8 billion.
- The current account deficit for the year ended 30 September 2021 widened to $15.9 billion (4.6 percent of GDP) from the $2.4 billion deficit for the September 2020 year (0.7 percent of GDP).
- New Zealand's current account balance was a seasonally adjusted $4.8 billion deficit in the September 2021 quarter, $1.7 billion wider than the June 2021 quarter deficit.
- The widening of the seasonally adjusted current account deficit was the result of a $1.5 billion widening of the goods deficit and a $237 million widening of the services deficit.
- The annual current account deficit was $15.9 billion in the year ended 30 September 2021 (4.6 percent of GDP), $13.5 billion wider than the year ended 30 September 2020 - the largest current account deficit since December 2008, during the 2007–2009 global financial crisis, when the deficit was $14.7 billion (7.8 percent of GDP).
- The main drivers of the annual current account deficit was the goods balance that went from a $2.0 billion surplus in the year ended 30 September 2020 to a $3.8 billion deficit and the services balance that went from a $2.7 billion surplus to a $4.3 billion deficit.
- Seasonally adjusted goods imports were up $1.8 billion and goods exports were up $209 million. This resulted in a widening of the goods deficit by $1.5 billion, to $1.9 billion. The increase in goods imports was driven by increases in intermediate goods, such as fertilisers, crude oil, and vaccines. The increase in goods exports was driven by meat and wine, almost fully offset by a fall in the exports of logs.
- The seasonally adjusted services deficit was up $237 million in the September 2021 quarter, with imports up $123 million and exports down $114 million. The increase in seasonally adjusted service imports was driven by transport services imports, up $254 million.

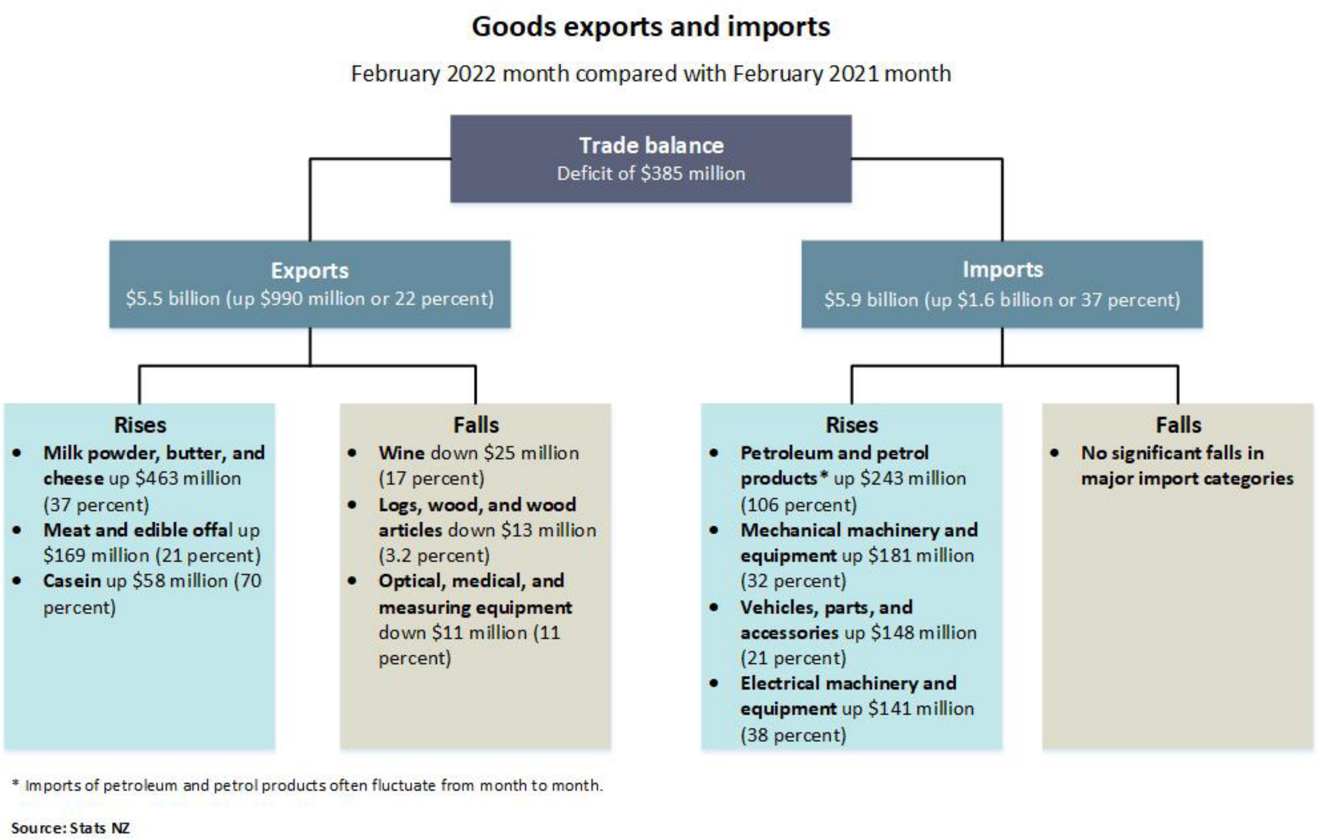
International trade-in services

Exports for 2021 amounted to $13.3B with transportation down from $3B to $1.4B and travel was down from $13.7B to $4.5B. Services imports for 2021 are currently down close to $5B, down from $21.8B to $16.7B with transportation dropping from $4.4B in 2020 to $3.3B whilst travel dropped from $5.2B in 2020 to $1.3B for 2021.

The largest areas of imported services comes from transportation, telecommunication, computer, and information services which were up from $2.3B in 2020 to $2.5B as well as trade-related business services, advertising/market research, and professional and management consulting services.

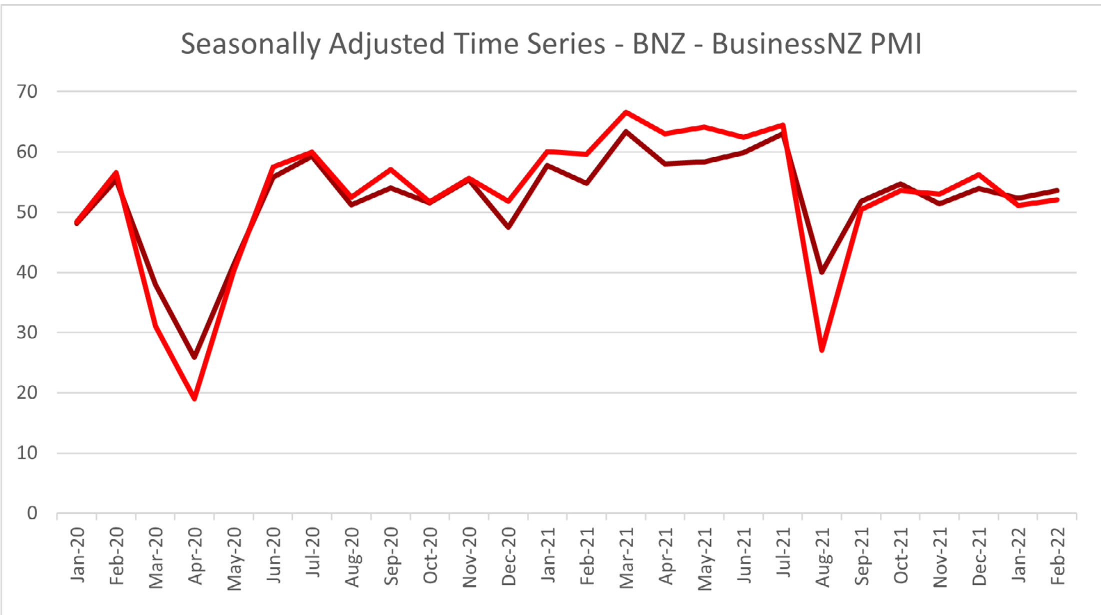
The overseas merchandise trade statistics

For January 2022, the monthly trade balance was a deficit of $385M, made up of a goods exports increase of $99M (22%) to $5.5B and a goods imports increase of $1.6B (37%) to $5.9B.

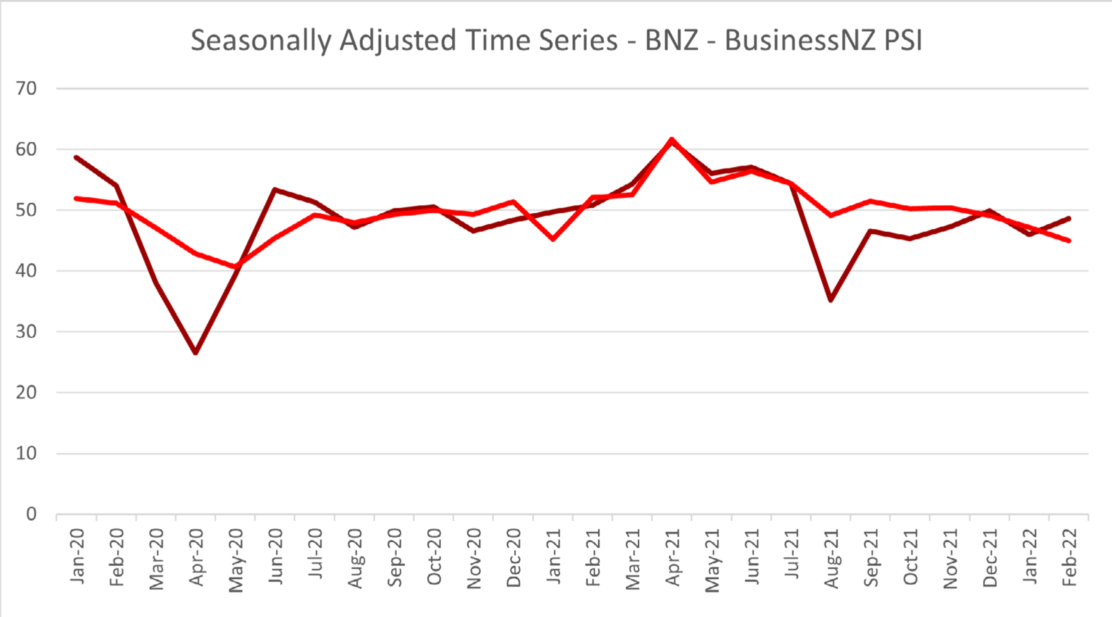


Other economic indexes

The Performance of Manufacturing Index (PMI) for February 2022 increased 1.3 to 53.6, which indicates the sector is expanding. 53.6 is also above the long-term average of 53.1. The employment sub-index was 51.7 up from 49.5 in January. For the PMI and PSI, a figure under 50 indicates falling activity, above 50 indicates growing activity.



The Performance of Services Index (PSI) for February 2021 showed that the service sector was contracting, for the seventh month in a row, at 48.6, up 2.6 from January. While this is an increase since January it's still well down on the long-term average of 53.6 for the survey. January's PSI was the lowest result since October 2021, and the last time the sector saw a similar time series of consecutive months of contraction was in 2008 at the height of the Global Financial Crisis. The Employment sub-index of 45 was at its lowest point since May 2020.



Real estate

According to Real Estate Institute of NZ (REINZ), the median price for a residential property across the country for [February 2022](), now sits at a whopping $885,000, an increase of 13.5% from February 2021.

Listings across New Zealand have increased 7.5%. Houses for sale across Hawke's Bay, Manawatu/ Whanganui and Wellington have increased 25% in comparison to February 202.

In December REINZ reported high demand and sales volume with 29 days being the median days to sell a home. However, for February REINZ reported houses across the country taking 11-14 days longer to sell than January 2022 - overall, the median number of days to sell a house is now 42 days.

Median house price year-on-year

- **National:** $885,000 - up from $780,000, +13.5% year-on-year
- **New Zealand Ex Auckland:** $785,000 - up from $651,000, +20.6% year-on-year
- **Auckland:** $1,190,000 - up from $1,100,000, +8.2% year-on-year
- **Wellington:** $993,000 - up from $899,900, +10.3% year-on-year

Median house price February/January

- **National:** $885,000 - up from $880,000, -0.6% since last month
- **NZ excluding Auckland:** $785,000 - up from $750,000, -4.7% since last month
- **Auckland:** $1,190,000 - down from $1,200,000, -0.8% since last month
- **Wellington:** $993,000 - up from $915,000, +8.5% year-on-year

Government Finances

Half-year economic and fiscal update

Economic figures, released by the government on December 15, show the strength of the New Zealand economy, and the continued space the government has to make sure that we embed a fair recovery for all.

The government books show the strength of the New Zealand economy, with GDP growth forecast to be a cumulative $78.5bn higher across the forecast period. That growth translates into rising government revenue, with an additional $48.6bn of new revenue forecast. Debt has continued to be very low by international standards, with net core Crown debt now peaking in 2024. Debt is forecast to be $42bn lower by 2025, than what was forecast a year ago. On an internationally comparable basis, New Zealand's Debt to GDP ratio looks favourable, with debt being a quarter of that found in the US and the UK, and around half that found in Australia.

The HYEFU forecasts show that unemployment is likely to fall again to a new record low of 3.1% in March 2022 - well below the forecasts of 5% just a year ago. Together with sustained forecast economic growth, this should present an opportunity to ensure rising living standards with annual wage growth forecast to be above 4% in each year of the forecast.

Rising forecast spending on items such as housing support also shows the need for continued investment in infrastructure and public services. The government has increased the operating allowance to $6bn in the next year and created a $4.5bn Climate Emergency Response Fund, however, they've also forecast a fall in capital spending on items such as Education, NZTA, and Corrections. Overall, investment in capital falls by $10bn compared to last year.

The update shows net core Crown debt is $18.7 billion lower than forecast in the Budget Update. The Government plans to return to surplus in 2024, three years earlier than forecast, by 2026.

These positive economic and fiscal forecasts present a historic opportunity for the government. It should not listen to the call of those who would cut spending without thought to the long-term consequences.

Budget 2022s policy statement

The government has identified two policy areas of focus, (1) embedding the health reforms announced by the Minister for Health in May 2021, including, replacing DHBs with one national organisation (Health New Zealand), establishing a new Māori Health Authority, and creating a dedicated Public Health Agency, and (2) addressing climate change.

Other highlights include

It's been 30 years since the public finance system was last fundamentally reformed. In 2022, the Government is piloting changes to modernise the system including changes to inter-agency collaboration, mediumterm planning, and a focus on value for money. The government will be piloting two clusters of agencies and Ministers covering the Natural Resources and Justice sectors. The agencies will be working together to identify priorities and develop proposals over the next three years.

Public sector

According to the **Treasury's Interim Financial Statements of the Government of New Zealand**, core crown tax revenue for the seven months ended 31 January 2022 was $1.4B higher than forecast at the HYEFU 2021, while core Crown expenses were 1.3B lower than forecast.

Total Crown revenue of $64.5B increased $1.5B, and core Crown expenses decreased by $1.2B when compared to *HYEFU 2021.*

Net core Crown debt is now 35.3% of GDP and is currently $121B, down $1.6B on the HYEFU 2021 which was $122.8B. Gross debt is now 118B, up $2.5B.

The Crown's total net worth is now $136.2B, an increase from the HYEFU forecast of 1.2B. The core Crown residual cash deficit was $19.5 billion, compared to the HYEFU forecast deficit of $20.67B and $25.3 billion at the last Budget for 2021.

Local government

For the December 2021 quarter, local government recorded a 2.4% increase in total operating income in seasonally adjusted terms, including an 8.5% increase in rates revenue, in comparison to the previous year.

Local government also recorded a 4.4% rise in operating expenditure ($138M) including a 6.1% increase in employee costs (up $41.9M) compared to the previous year.

This resulted in an operating deficit of $260M in the quarter. Note that the latest (December) quarter results are provisional and all are seasonally adjusted figures which are revised with each release.

For the September 2021 quarter, local government recorded a 3.8% increase in total operating income in seasonally adjusted terms, including an 8.4% increase in rates revenue, in comparison to the previous year.

Local government also recorded a 2.5% rise in operating expenditure ($75.4M) including a 3.8% increase in employee costs (up $27M) compared to the previous year.

This resulted in an operating deficit of $155.8M in the quarter, compared with a deficit of $292.6M for the previous quarter. Note that the latest quarter results are provisional and all are seasonally adjusted figures which are revised with each release.