NZCTU Te Kauae Kaimahi

Monthly Economic Bulletin

April 2022 – Budgets, Child Poverty & Cost of Living

NEW ZEALAND COUNCIL OF TRADE UNIONS
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April 2022

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Introduction

Highlights of this month's Economic Bulletin include the current inflation and cost of living crisis and the latest child poverty statistics, alongside an update of the regular economic indicators and forecasts.

We're also looking forward to the Government's 2022 Budget being announced in early May. Over the last few weeks, the CTU has consulted with our affiliates on the key areas of concern for their sectors and what they would like to see the Government deliver on and prioritise in the budget. We discuss our key recommendations ahead of the Budget and the CTU will also be putting out a report in response immediately post-budget.

As always, should you have any questions about the data or any requests for more information, please get in touch. We are always keen to discuss economic topics and any special requests for future editions.

We would like to thank affiliates for their contribution to the Budget 2022 position.

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Upcoming Budget 2022

The CTU Policy team, alongside our union affiliates, has put together a run-down on what we wish to see in the upcoming Budget that will be delivered on Thursday 19 May.

The CTU agrees with the trajectory this budget is looking to take. The Government has stated that its priorities are to invest in the health system, climate change and core public services including education.

The Minister of Finance has indicated a one-off increase to the operating allowance of $6 billion, which will invest in major programmes, including the health reforms. The National Party opposition has already begun an austerity campaign telling this Government to reign in its spending and blaming them for inflation.

However, the Government shouldn't be afraid of targeted spending that invests in much needed public services and infrastructure. National would do well to learn about the time value of money – a dollar invested today is worth more than a dollar tomorrow. If they understood this concept better Labour may not have inherited a run-down health system, sold off state houses, a housing crisis and a $75 billion infrastructure deficit, equivalent to a quarter of annual GDP.

Managing Government debt is important, but is not in itself a bad thing. The 2022 Budget Policy Statement, reports that net core Crown debt is forecast to be 30.2 per cent of GDP in 2025/26. Significantly lower than forecast for most advanced economies. There is no Government debt problem in New Zealand.

When it comes to inflationary fiscal policy, tax cuts are well known to contribute to inflation. The Government understands this and instead has made good alternative choices in response to the growing cost of living such as the reduction in fuel tax and halving the cost of public transport. A move that targeted one of the main causes of inflation without adding to further inflationary pressure. According to the last census data, 57.8% of New Zealanders drive a private vehicle to work, 11.2% drive a company car and a further 6.4% take public transport – a policy that worked to reduce a necessary cost for over 75% of workers and targeted a major driver of inflation. 19% of students catch public transport to education, and 11% of students drive.

Investing in the infrastructure deficit should be a key priority of this government because it would help tackle a leading cause of child poverty, which is access to stable, affordable accommodation. This in turn flows on to stable school enrollments as they're not frequently moving to different school zones and therefore provides better education outcomes.

The CTU wants to see a budget that is forward-looking and delivers on its transformational agenda. The two years of responding to Covid-19 has been all consuming and has put a massive stop on other areas. Investing in projects now that strengthen our economies ability to withstand future shocks is not only what is needed to build back better from Covid-19, but by design delivers fiscal sustainability for now and for future generations to come.

In Budget 2021, the CTU said it was a missed opportunity for a plan and clear sense of how we as a country would 'build back better' from Covid-19. Budget 2022, provides another opportunity to set out its economic vision.

Just Transition

The CTU hopes that climate change investments include investment in green infrastructure, particularly in light of the ongoing infrastructure deficit. Research shows that green investments are better job creators and provide a better return per dollar spent than fossil fuel alternatives. Choosing not to invest is simply passing the costs on to the next generation.

New Zealand needs urgent action for a Just Transition to a low-emissions economy. In recent years the Government has made a positive start in building consensus with social partners, including unions and business, on the need for a Just Transition. The challenge now is to take concrete action at the scale and pace required for transition, at the same time as continuing to widen and deepen social engagement.

Budget 2022 needs to fund concrete actions for Just Transition, starting now and rapidly ramping up over the forecast period. Action needs to be continuously informed by social engagement, including with unions, iwi, and all communities including Pasifika. Funds need to be allocated for implementation of an Emissions Reduction Plan focused on Just Transition, making use of the Budget 2021 commitment to hypothecate, or ring-fence, revenue from the Emissions Trading Scheme. Just Transition also needs to be a key theme across the budget, as part of a cohesive vision and plan for a productive, sustainable and inclusive economy.

In the short run, we are calling for reinstatement of the Employment Relations Education (ERE) grants fund with initial focus on Just Transition. This would cost $20 million over five years, based on the inflation-adjusted cost of the ERE fund that existed until 2007. Paid time for worker engagement could also be funded through a targeted subsidy for ERE leave. $26 million over five years would fund 200,000 hours per year at median wage over five years to enable workers to engage in Just Transition planning.

A key role for Government is to plan and fund a skills transition to build workforce capacity. Major projects for clean energy, public transport and social housing should be linked to funded plans to attract and train the skilled workforces required.

Budget 2022 should fund development and implementation of a new program of active wrap-around support for workers in transition, broadly defined. This should learn from successful programmes such as Mana in Mahi, with a similar level of support and investment per person, but developed for experienced workers needing support for career moves into different roles and industries. This would cover immediate needs to support workers currently facing transition that affects their employment and would need to be significantly increased in future budgets.

At the same time, we need to invest in social infrastructure and the care economy to create tens of thousands of good jobs to serve our communities in every region of the country. We should invest in education to support the needs and aspirations of working people and their families from Early Childhood through to Tertiary Education and Training. We should invest in expansion of the public health system, including mental and dental health, to fully support the health and wellbeing of every community in every region. We should invest in public and not-for-profit provision of community services, including Aged Care and Disability Support, so that every member of our communities can live in dignity and fulfill their potential at every stage of their lives. Government should also partner with Iwi and Hapū to maintain and develop their own physical and social infrastructure, from marae and papakainga projects through to sustainable skills development and good employment in community services. Investing in these public services means investing in people, supporting our communities to be resilient and adapt to change.

We will also be looking for Budget 2022 to take a lead in decarbonisation for the public sector, including in education and health, as well as in the broader community public sector. This should include fully funding the rapid replacement of all fossil-fuel boilers for heating of public buildings, replacing these with clean electric heating. We also expect to see funding for expansion of the electric vehicle fleet and would welcome initiatives to expand this to the community public sector, including for Care and Support workers. Government should also strengthen social procurement, to ensure that all government spending contributes to decarbonisation and creates good employment opportunities.

Transport

The major challenge for freight and passenger transport is to fund the public infrastructure and services needed to expand the network so that we can meet the transport needs of New Zealanders while reducing carbon emissions. It will therefore come as no surprise, that the CTU disagrees with National Party Leader Chris Luxon's policy position to slash funding and subsidies to *public* transport and we're pleased he ultimately came to the realisation that underfunding core infrastructure is regressive and backtracked.

We will be looking for Budget 2022 to make major new investments in the rail network, along with the infrastructure needed to expand and electrify the bus network and support coastal shipping. Additional capital investment is needed to make progress on electrification of passenger rail. Fully funding priority projects identified in the New Zealand Rail Plan would enable electrification of rail lines from Pukekohe to Hamilton, Palmerston North to Waikanae, and Hamilton to Tauranga.

We also hope to see funding for free travel on public transport, or at least an extension of the currently reduced fares, along with funding to work with regional authorities on improving conditions for drivers and other transport staff. Halving the cost of public transport cost the Government up to $40 million for three months. That means that fully finding free public transport would cost up to $320 million per year. That would be a truly transformational investment in New Zealand.

Housing

New Zealand faces a crisis of unaffordable and substandard housing. Home-ownership is now out of reach for a growing number of working people and rising rents are putting severe pressure on living costs. In last month's Economic Bulletin we discussed how median rents were now reaching up to 97% of a minimum wage workers take-home pay and introduced the **NZCTU Minimum Wage to Housing Index,** which showed that in order for the minimum wage rate to keep up with housing costs for renters, the current minimum wage should be $25.17.

Th Government can help by building more state housing. We need more than 25,000 new units of state housing just to meet existing demand. Beyond this, we should be expanding the criteria for state housing to provide attractive and appropriate homes for working people in our urban and regional centres. We will be looking for Budget 2022 to fund the construction of tens of thousands of units of new state housing.

We welcome the $1.4 billion pre-budget announcement to fund development of additional state housing and affordable housing in Auckland. Land owned by Kainga Ora should be used to develop higher density state housing to meet the urgent needs of those currently on the waiting list. We also need to recognise that the residential construction industry in New Zealand is fundamentally broken, with system-wide shortages of skilled workers and building products, as well as a fragmented regulatory system that is not fit for purpose.

We will be looking for Budget 2022 to make further investments in developing a skilled construction workforce. We would also welcome Government taking a more active role in the Construction sector, including by establishing a public entity to procure building supplies, support workforce development, and implement key projects. One approach to such a public entity has been recently proposed in the form of a Ministry of Green Works. This deserves serious consideration and we would welcome Budget 2022 taking initiatives to build public capacity to further support residential construction.

Education

One of the priority areas the Minister for Finance has highlighted is investment in Education. The CTU would support further investment in this area including a budget that recognises and invests in the importance of secondary teachers, and the rangatahi they teach, alongside substantial new investment in learning support and primary school staffing to reflect the high levels of pressure teachers are under.

Currently, secondary teachers are still struggling with supply issues including challenges recruiting teachers into the profession and then retaining them.

The pandemic has further amplified many of the issues that already existed, particularly in terms of teacher shortages due to closed borders and the increasing workload and burnout as a result. On top of this, the digital divide, which has always been present, has been highlighted by the challenges of teaching during a pandemic. Investing in the digital divide would reduce the consequences of the next lockdown.

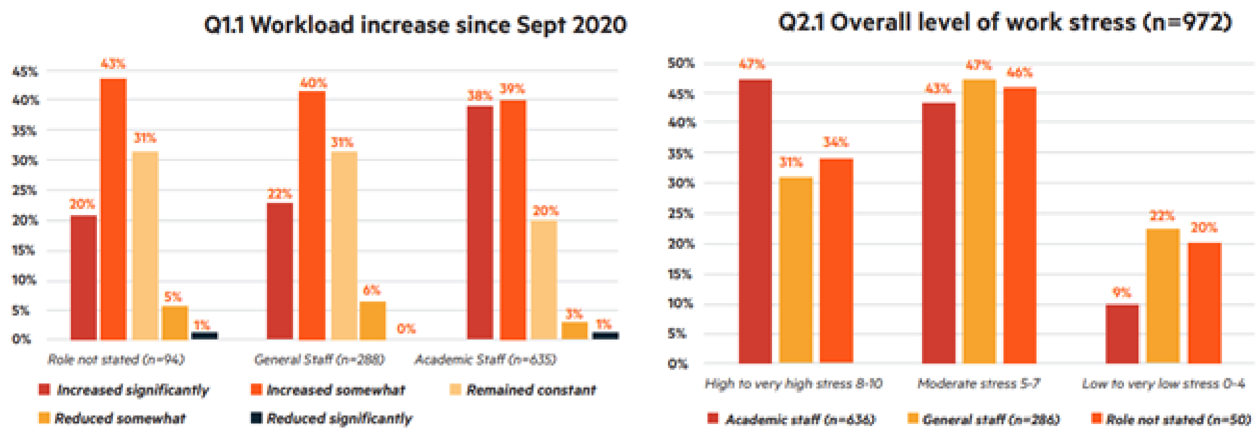
PPTA told the CTU that in regard to the international supply of additional teachers: “By the time the announcements were made of dedicated spaces, it was far too late. Workload and burnout have increased despite measures put in place. In the first lockdown there was considerable effort to get internet access and devices to students, alongside hardpacks of material. If this has continued, there is less evidence of it, and many communities and families are struggling. This has resulted in a system where those who can access education digitally when in isolation or lockdown are advantaged over those that cannot. Access to the internet of a sufficient enough quality to allow for online teaching was an issue for teachers, as was the cost for many, especially those in more rural locations”.

We would also like to see in the budget a clear commitment from the government to full pay parity for ECE teachers.

Tertiary Education and Training

Another main challenge for the Tertiary Education and training sector is to maintain the institutional capacity to provide high quality public education for working people and their families.

In Vocational Education and Training, the merger of Polytechs into Te Pūkenga will require longer than planned, and further support in Budget 2022. This is particularly necessary to maintain capacity and retain staff in the regions. We also want to see support for trades trading maintained and expanded, including through continuation of the Targeted Trades Training and Apprenticeship Fund and the Apprenticeship Boost. We estimate that $890m is needed over five years, based on additional costs to extend $320m TTAF from 2.5 to 5 years and $380m Apprenticeship boost from 2 to 5 years.



Graphic: TEU [State of the Sector Report.](#) September 2021

Research by the Tertiary Education Union has shown workloads increasing for staff in the sector, with high levels of stress as a result. There is a need to invest in the sector to support education professionals and general staff. We will be looking for Budget 2022 to increase funding for the Tertiary sector in real terms, backed by active coordination to ensure that Tertiary Institutions use their funding to value and support their staff.

Justice

There has been under investment in the justice workforce and more is required to create the future workforce. Workers in the sector are undervalued and underpaid, wages have remained stagnant. Support for those passing through the criminal justice pipeline is dependent on these agencies maintaining the workers required to produce the results the Government wants to see.

There are poor outcomes for those within the system and a lack of prioritisation for justice reform:

- Incarceration rates for Māori and Pasifika, particularly Māori women remain unacceptably high.
- Legal Aid accessibility remains an issue. Law Society report of October 2021 found that 'Legal aid lawyers are motivated to provide people with access to justice and feel a moral duty to do so, however, legal aid provision in its current state is not sustainable.'
- Underfunding of community law centres that operate outside the legal aid system and attempt to assist those who cannot/ do not receive legal aid.
- Concerns around the efficiency of Family Court systems in delivering resolutions especially for children. Notably this was an important commitment in the previous budget.

The Ministry of Justice needs significant system upgrades for Courts including some that have become particularly important during Covid-19 such as the ability to conduct hearings with remote technology.

Covid-19 has meant there has been a significant backlog of cases built-up. The Ministry simply doesn't have the resource to address this, and this has implications for access to Justice:

- Community spread of Covid-19 disproportionately impacts incarcerated people, unable to socially distance. Flow on impacts for Māori and Pasifika communities.
- Diverted funding due to Covid-19 related developments.

The government has said that it will continue with pay "restraint" but somehow recognise the work of public servants – hopefully not with muffins at mornings tea.

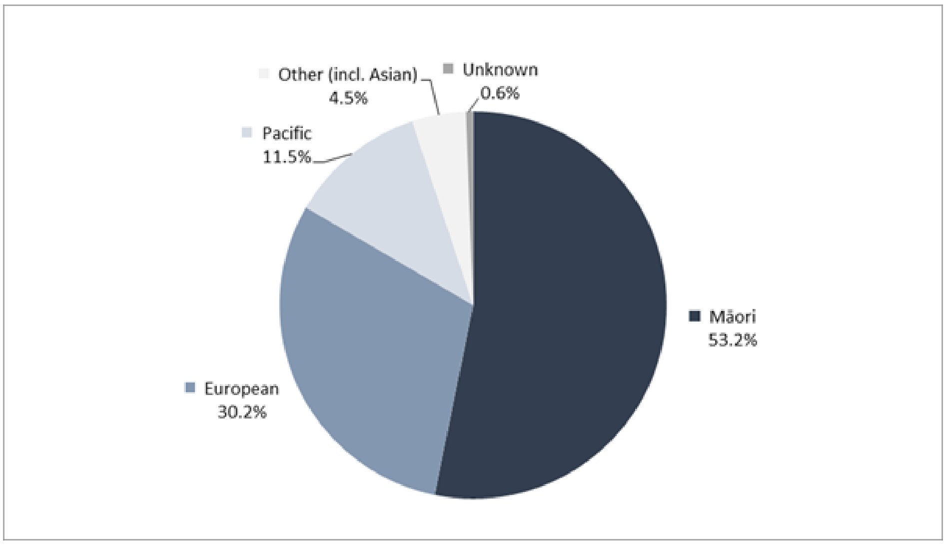
The Government has previously suggested that 'steps-based pay' in the Public Service, enshrined in existing Collective Agreements, would protect Public Servants from inflation.

Labour has previously made a commitment to increasing Legal Aid funding in the last budget. Law centres had received increased funding from Ministry of Justice in 2020. There are also currently three PSA pay equity claims in the Justice sector: for administration and clerical workers; for Probation Officers and Senior Practitioners and Psychologists.

We will be looking to see resourcing of Justice and Corrections to ensure automatic annual pay progression systems with transparent steps (similar to that for teachers and nurses), and pay increases that compensate the workforce for the increase in the cost of living.

Projects such as the Criminal Process Improvement Programme and the family violence taskforce and programme of work to address family and sexual violence need to continue to be funded so their work can be continued.

From Department of Corrections- Prison facts and statistics December 2021



Social development

From 1 April, the Government announced income increases for over 1.4 million New Zealander's including:

- Main benefit rates increased by between $20 and $42 per adult, per week compared to 1 July 2021
- Minimum Wage increases to $21.20 per hour
- New Zealand Superannuation rates increasing by $52 per fortnight for single superannuitants living alone, and by $80 per fortnight for a couple.
- Student Allowance and Living Costs increases by $25 per adult, per week
- Childcare Assistance income thresholds indexed to average wage growth
- Working for Families tax credit increases
- Orphans Benefit and Unsupported Childs Benefit increases by between 12 and 26 percent per week

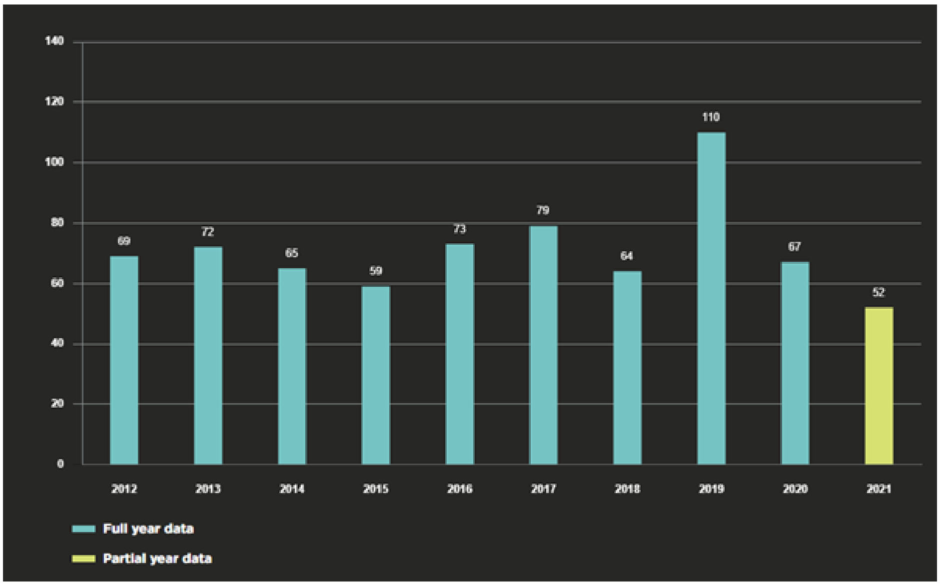
This is welcome support for some of the most vulnerable families in New Zealand. At Budget 2022, the CTU would welcome any additional moves by the Government to protect low income households from the impact of inflation and rising rental costs. This is especially the case for any proposals that the Government may bring forward to further tackle child poverty (see the child poverty section for further information).

According to the Government, all main benefit rates are now above what the WEAG recommended for 2019. The Government should now look to lift benefits to keep up with 2022 levels of inflation and costs.

Workplace relations

Systematic weaknesses in the New Zealand labour market mean that too many Kiwis work in precarious work, and earn wages that are too low. Māori, Pasefika, young, disabled people and migrants all have poorer outcomes and are undervalued. Poor working conditions remain an issue, as does migrant exploitation.

Annual work-related fatalities



Source: Worksafe

Too many Kiwis are being hurt on the job. Over a 12-month period (Nov 20 – Oct 21) 63 workers lost their lives on the job, an estimated further 750-900 also died from work related health deaths. Overall workplace injury statistics have not trended in the right direction:

- Work-related injuries resulting in more than one week away from work have been increasing yearly since 2011 and have remained above the baseline (the average for 2009-2011) since 2014.
- Work-related serious injuries have tracked upwards since 2016.
- Work-related fatal injuries have stayed stagnant on an annual basis.

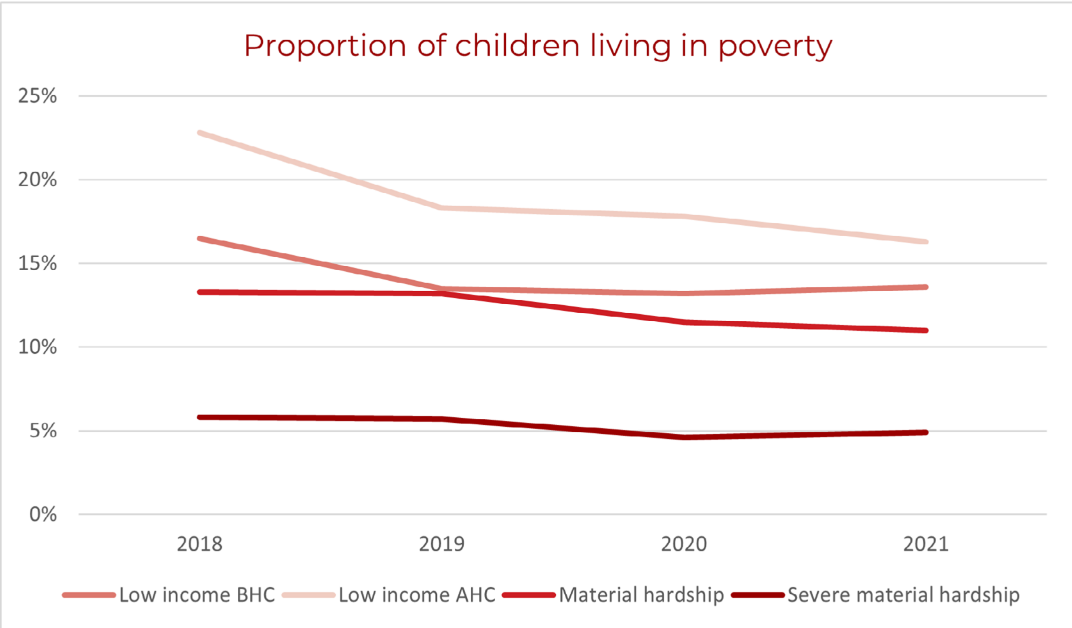
Covid-19 has put a spotlight on the inadequacies of the minimum rights and entitlements that working New Zealanders have. For example, the government has recently closed consultation on a proposed Income Insurance Scheme. This would provide workers with support when they lose their income through no fault of their own. The CTU has supported the development of the proposals. Budget 22 may provide further detail on what the government intends to do next in this area.

The CTU would like to see:

- Resourcing for Fair pay agreements to hit the ground running when the legislation passes.
- Funding of the labour inspectorate and WorkSafe to ensure that there is oversight and enforcement of labour standards – under FPAs, HSWA, migrant exploitation etc
- Further funding of WorkSafe and its initiatives in the worker engagement, participation, and representation space.

Child poverty update

The latest data shows progress, but the large disparities between Māori, Pasifika, & disabled still a cause for concern. While the CTU is pleased that measures of child poverty have been steadily trending downwards since Labour came into government, the latest numbers released by Statistics NZ show that the three primary measures of child poverty are relatively unchanged since this time last year. Measures of severe material deprivation have even marginally increased by 3,500 children.



The child poverty statistics come from the Household Economic Survey (HES). For reference, the three primary measures (a, b and c) of material hardship are:

a. Percentage of children living in households with less than 50% of the median equivalised disposable household income before housing costs are deducted

b. Percentage of children living in households with less than 50% of the median equivalised disposable household income after housing costs are deducted (for the 2017/2018 base financial year)

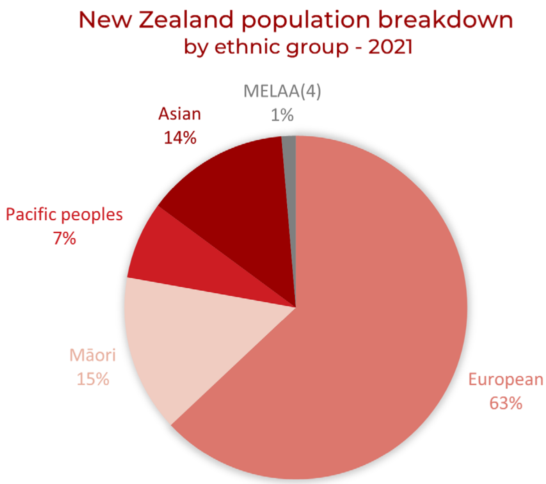
c. Percentage of children living in households that experienced material hardship

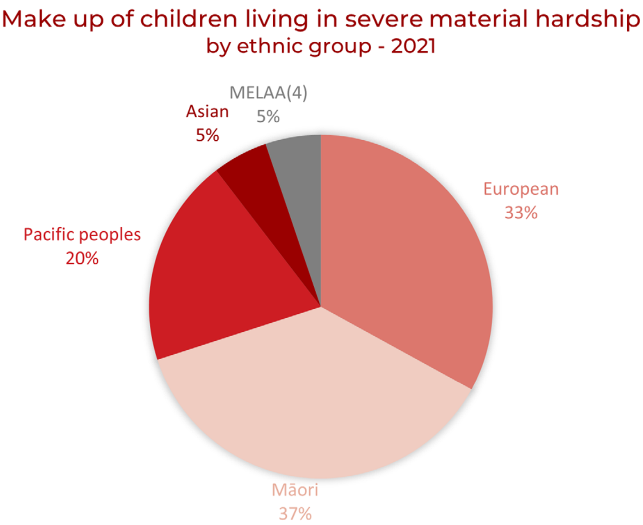
Furthermore, an additional indicator (i) shows the percentage of children living in households that experienced severe material hardship

For the DEP-17 index measure for material hardship a score of six or more missing items indicates material hardship, and a score of nine or more indicates severe material hardship.

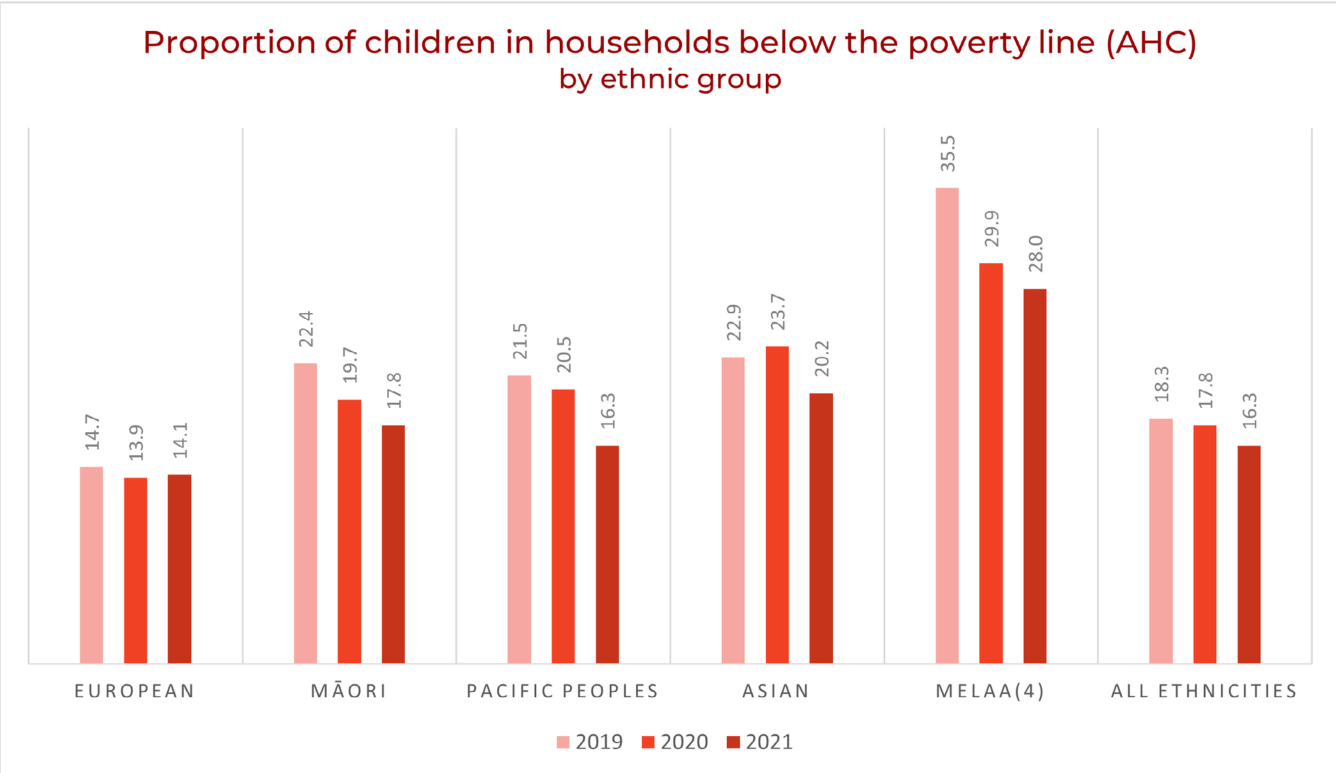
The latest statistics are for the year June 2020 – June 2021, which is after the initial Covid-19 lockdown and prior to the August 2021 lockdown. This is the first time the HES has collected data on household incomes during the COVID-19 pandemic.

Although it is not possible with the data given to isolate the effects of the pandemic on the child poverty outcomes, there's no doubt the COVID-19 lockdown was having an impact. Given the Treasury's initial predictions that the pandemic would bring unemployment of near 10%, these stable figures indicate that the Government's strong economic response to the pandemic has likely mitigated more children from falling further into poverty.

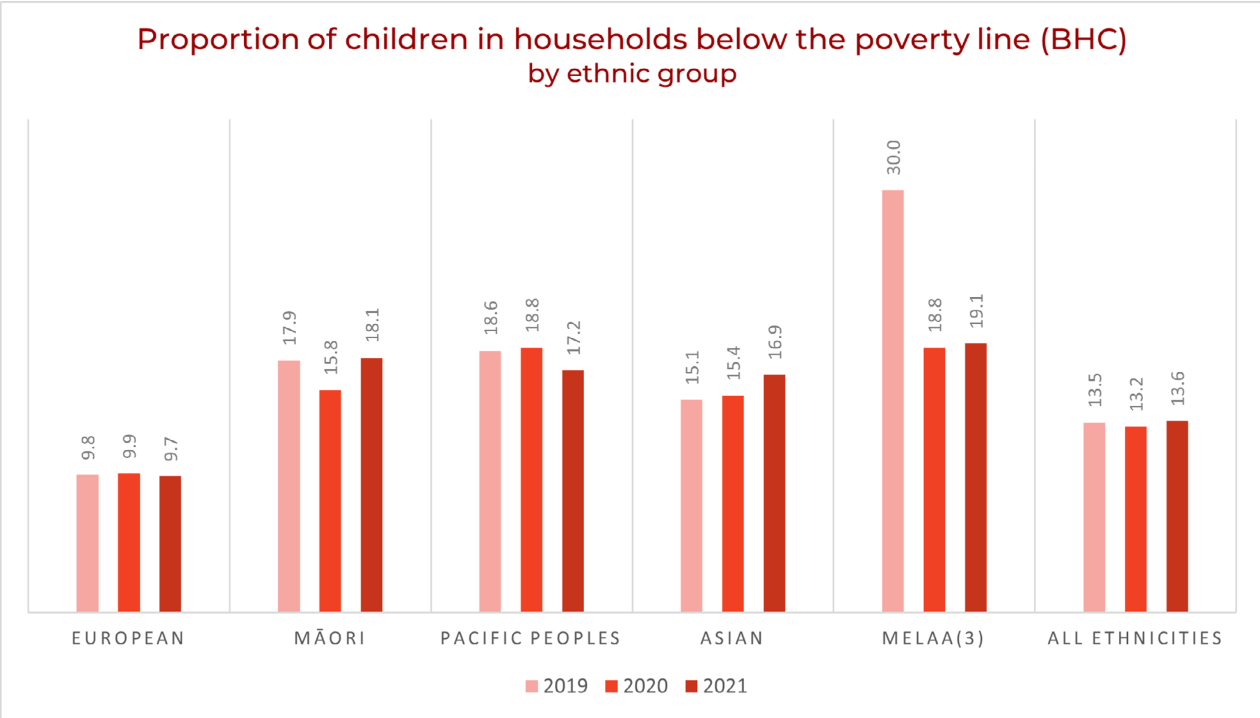




The three primary indicators of poverty among Māori and Pacific children were relatively unchanged. Measures of child poverty for disabled children were also relatively unchanged from the previous year. While we should celebrate the fact that child poverty figures have not reversed, the lack of progress still shows much more needs to be done.

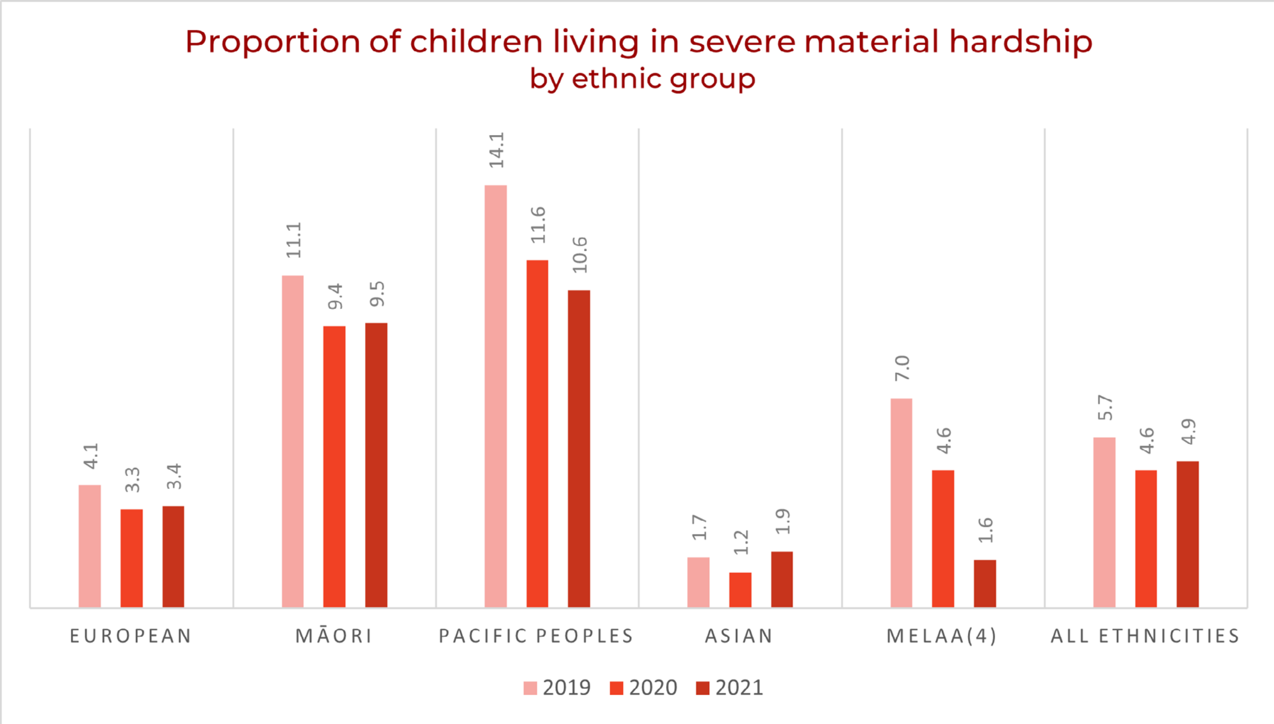


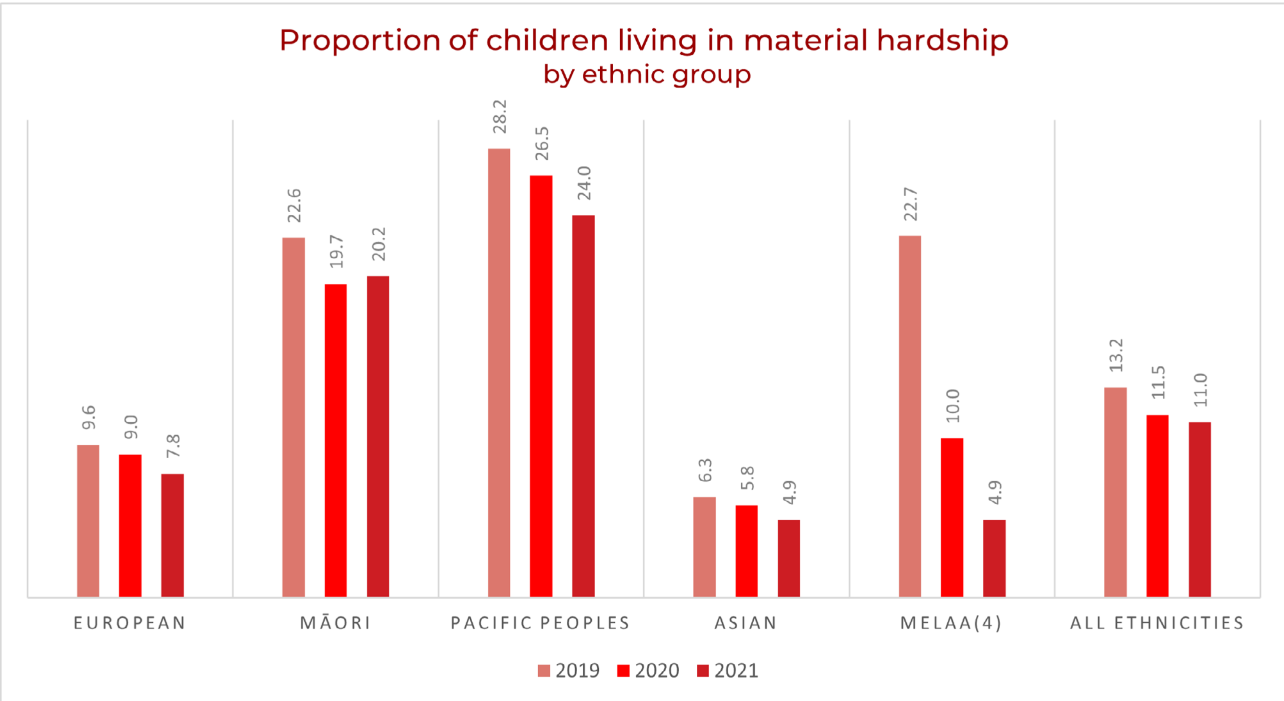
While Māori make up 16.5% of New Zealand's overall population, Māori children account for 51% of children living in severe material hardship. Pacific peoples make up 8.1% of New Zealand's overall population, but Pacific children account for 27% of children living in severe material hardship. The inequities in our society become much more concrete when you look at those numbers in comparison to Pakeha children. Pakeha make up 70.2% of our population but account for only 45% of children in severe material hardship. It's clear a greater effort is needed to shift children out of poverty.



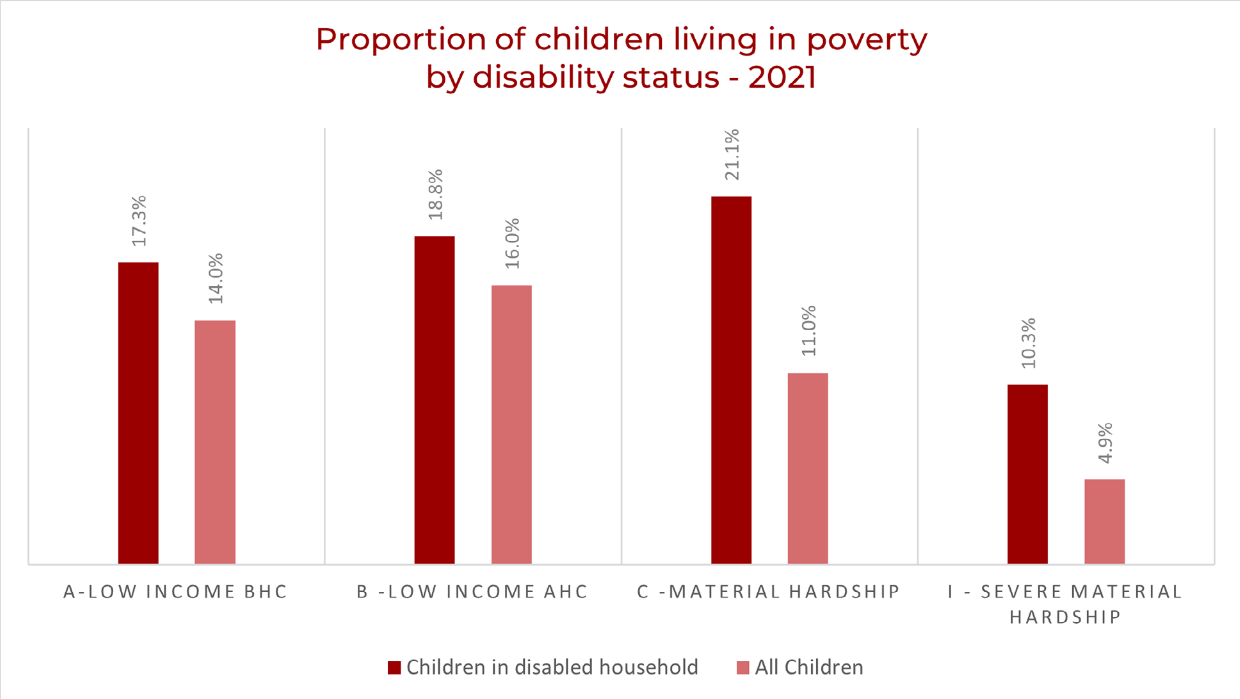
The graphs below show the likelihood a child is born into poverty by ethnic group. The graphs demonstrate that close to 2 in 5 Māori children are in households with low-incomes and are therefore twice as likely as Pakeha children to be living in households below the poverty line. One disparity that is striking to see pictured is that all ethnic groups other than Pakeha are disproportionately represented in the child poverty statistics. Almost 3 in 10 Middle Eastern, Latin American and African (MELLA) children live in households with low income after housing costs, and are twice as likely as Pakeha children to be in low income households before housing costs and after housing costs.

Over 1 in 5 Māori and Pacific children live in material hardship and just over 1 in 10 Māori and Pacific children currently live in severe material hardship — 2 times and 3 times higher than Pakeha children to be living in poverty, respectively.





It's also clear that households with disabled children or disabled parents are disproportionately impacted by poverty. 10.3% of disabled children live in households in severe material hardship – and unfortunately, this number has increased by 1.5% from the previous year. This is also in comparison to non-disabled children, of which 4.2% live in households in severe material hardship (no change from the previous year) - Meaning that disabled households are more than twice as likely to be impacted by material hardship and severe material hardship than non-disabled. The group 'children in disabled households', includes children with disabled sibling, parents or other members of the household. A main reason for this is because looking after disabled children, family members, or being a disabled parent can both hinder the ability for parents to work full-time in stable employment. Additionally, the cost of in-home care as a matter of priority in some cases would mean families having to make hard choices on what material items to do without.



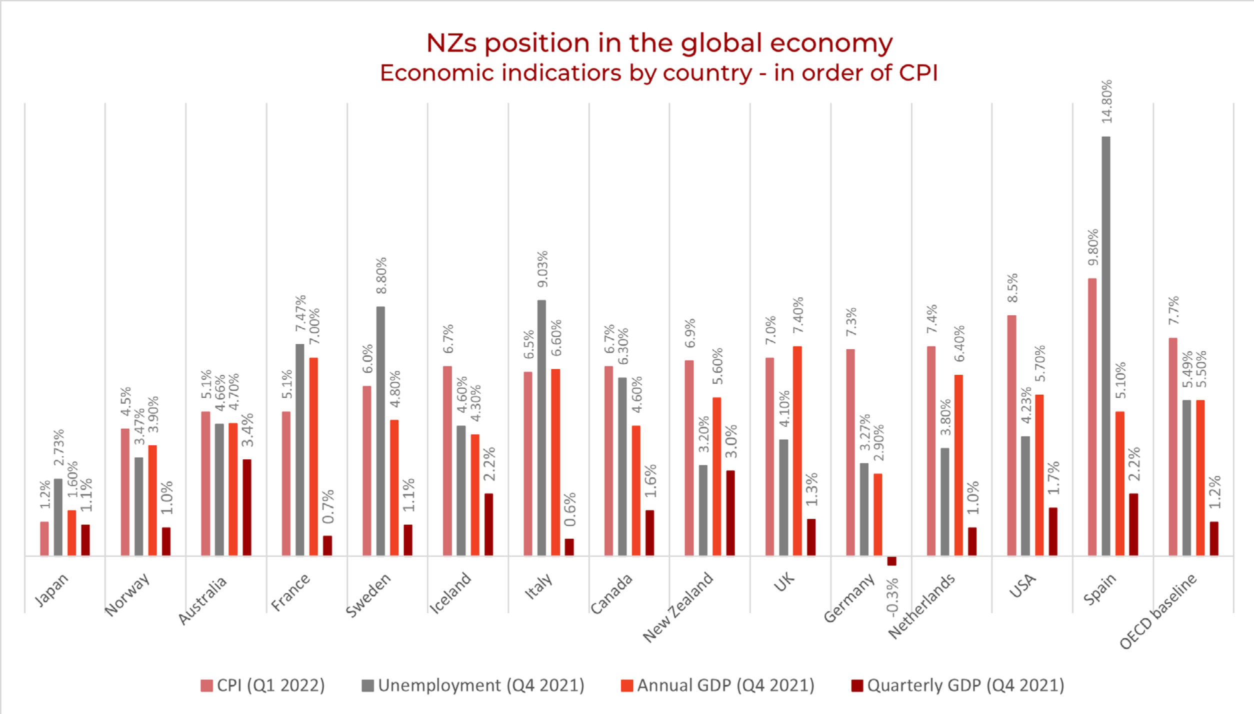
We would like to see the government look at as a matter of priority policy measures that would ensure once children are moved above the poverty line they stay there and in doing so ensuring all New Zealand's children have equal opportunities to reach their full potential.

Inflation, cost of living crisis and spending?

Following on from last month's bulletin, high inflation and growing cost of living continues to be a topic of interest. The latest release from stats NZ shows inflation peaking at a 30 year high of 6.9%, just shy of the 7% forecast. The current narrative from the National Party is that inflation is a predominantly domestic issue that can be largely attributable to government spending.

However, the reality – which I demonstrate below, and touched on in last month's bulletin – is that inflation is a global issue right now driven largely by increases to the price of oil, the war in Ukraine and supply chain shortages resulting from Covid-19.

As you can see from the graph below, New Zealand's position in the global economy is strong. Although inflation is at a 30 year high, it is below the OECD average of 7.7%, and our strong annual GDP growth of 5.5% sits just above the OECD average of 5.6%. Annual GDP growth of 5.5% is the highest growth in GDP for New Zealand since June 2000 when the annual growth rate was 6.1%.

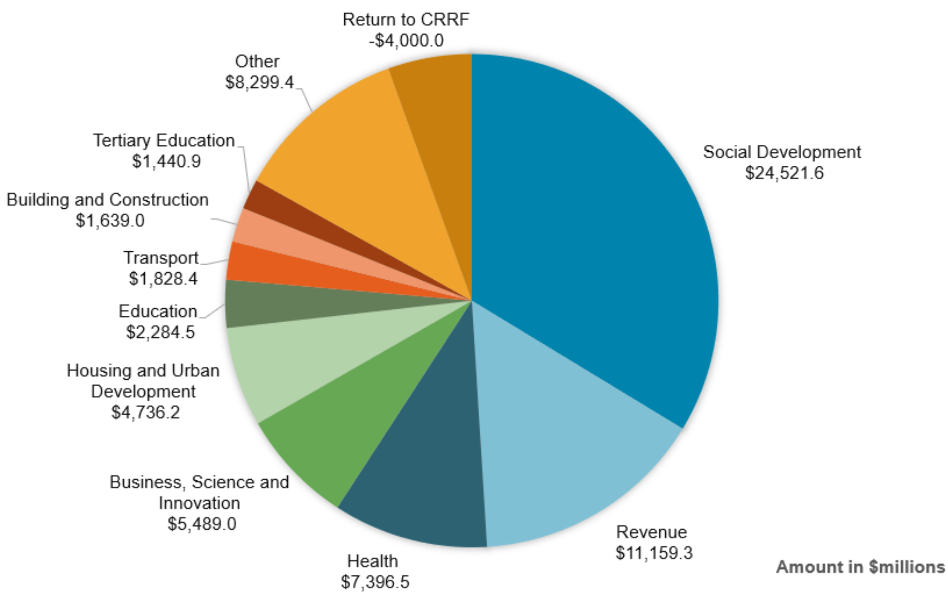


Meanwhile our government's fiscal response to the Covid-19 pandemic of 19% of GDP is in line with Australia and the UK. The UK currently has annual inflation at 7% and Australia's is 5.1%. In terms of quarterly CPI, Australia has seen a larger inflation rate than New Zealand at 2.1% and 1.8% respectively.

New Zealand's 6.9% increase is a 30 year high, while Australia's is a 20 year high. While Japan's inflation sits at a low 1.2%, their GDP growth, however, is also at a low 1.6%. When it comes to rising inflation, Japan has the opposite problem and has instead spent years trying to create inflation.

The 19% of GDP for the government's fiscal response to Covid-19 amounts to around $74.1 billion of *allocated* funding to support both the response and recovery.

COVID-19 Response and Recovery Fund original decision allocation breakdown



Source: NZ Treasury

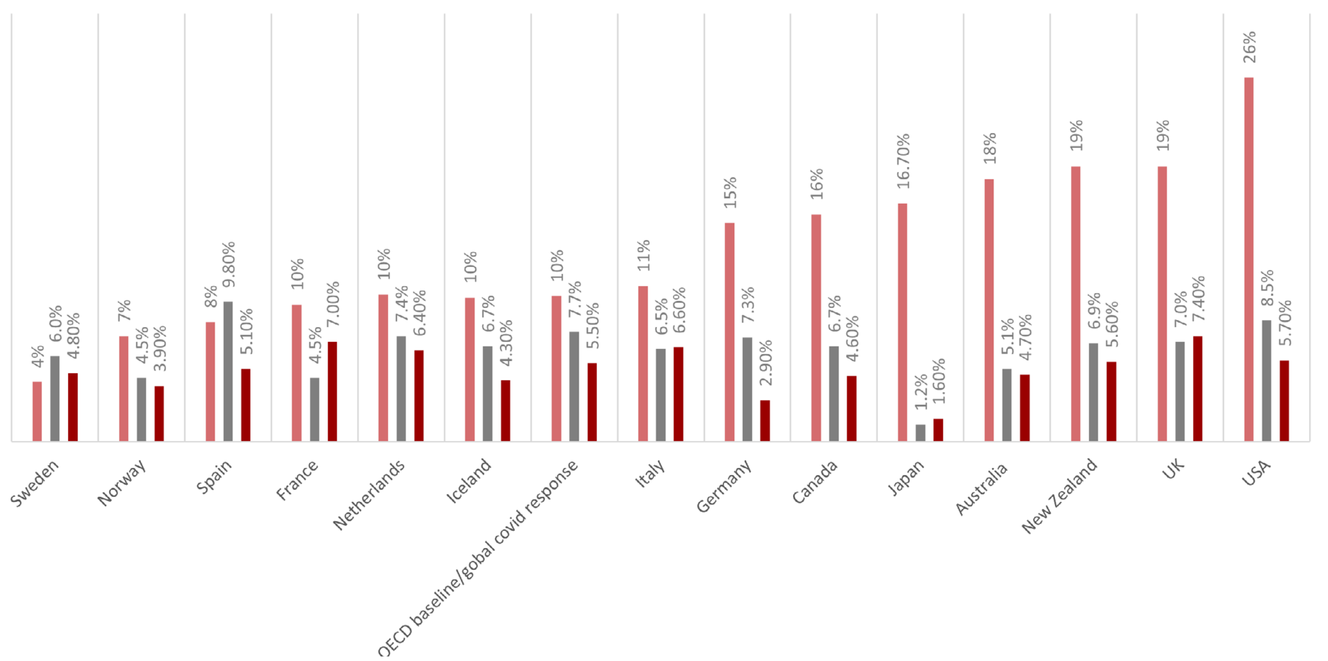
There is of course an element of government spending that can be used to stimulate economic growth which could contribute to inflation such as the $13 billion paid out in wage subsidies (more than 10,500 were paid back) which served to keep businesses running during lockdown and supported more than 1.7 million workers. However, other funds went directly towards the health response including:

- $200 million to purchase Personal Protective Equipment
- $26 million to support residential aged care providers to keep COVID-19 at bay
- Boost of $35 million to PHARMAC's budget for essential medicines
- $15 million to continue the Unite Against COVID-19 public health campaign
- $66 million has been allocated to support the rollout of the vaccine.

Funding directly to businesses in need and wage subsidies direct to workers, are examples of targeted spending that enabled New Zealand to avoid the Treasury's predictions of a 10% unemployment rate. Instead, New Zealand has extremely low unemployment of 3.2% well below the current OECD average of 5.5%, or Canada's 6.3% or Australia's 4.66%.

The Government's Covid-19 response kept kiwi's alive when health forecasts were predicting 27,600 NZ deaths in 2020 alone, mitigating both the forecast death toll and the Treasury's forecast recession and 10% unemployment rate.

Fiscal covid response as % of GDP alongside CPI and GDP growth



The graph above shows New Zealand's, alongside similar economies, fiscal response to Covid-19 alongside inflation (CPI) and GDP growth. The graph shows countries in order of lowest to highest inflation rate, while the fiscal response varies - effectively, there is little to no correlation between the New Zealand government's spending in response to the pandemic and the rising cost of petrol, groceries and housing. Inflation is clearly a global issue and not a purely domestic one. Last week the IMF said "central banks [around the world] face the challenge of tackling high inflation pressures in a scenario marked by evolving shocks to the global economy, including health, geopolitical, climate change, and deglobalization risks". New Zealand's Reserve Bank Governor Adrian Orr told the IMF that global inflation was "in the context of a high, evolving, severe health shock to the global economy, exacerbated by the Russian invasion of Ukraine".

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 April 13, the RBNZ increased the Official Cash Rate a further two basis points (0.5%) to 1.5%, the largest increase since 2000. The RBNZ is also still signaling that it's likely that the OCR will continue to increase this year to 2% and up to 3% over the next 3 years.

Many banks have responded to the OCR hike by increasing their variable interest rates which will continue to put pressure on home owners cost of living. One year mortgage rates are now around 5%, having been 2.5% a year ago.

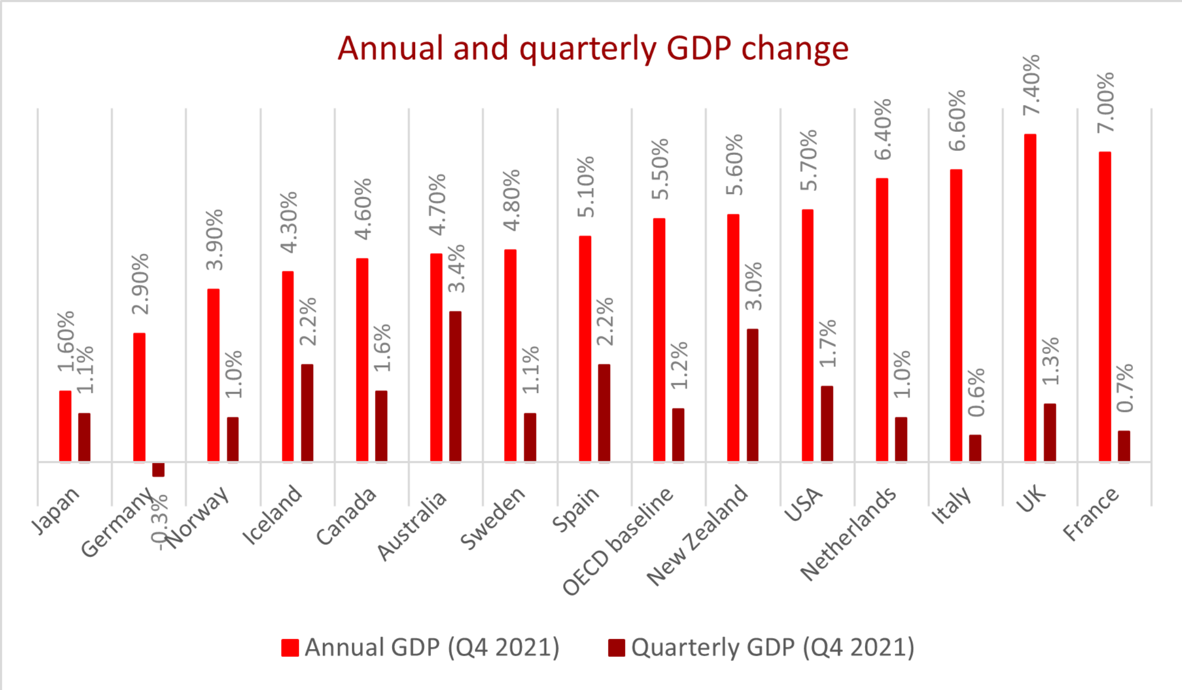
While the increased cost of interest rates on mortgage payments will be unwelcome for many, the benefits of an OCR hike are that it should dampen the runaway increases in house prices that we've seen over the past 2 years, particularity since the RBNZ decreased the OCR in March 2020 to 0.25% (down from 1%) in response the pandemic lockdowns and the forecasts at the time that house prices may crash. The OCR remained at this low rate of 0.25 until November 2021 when it was increased to 0.75.

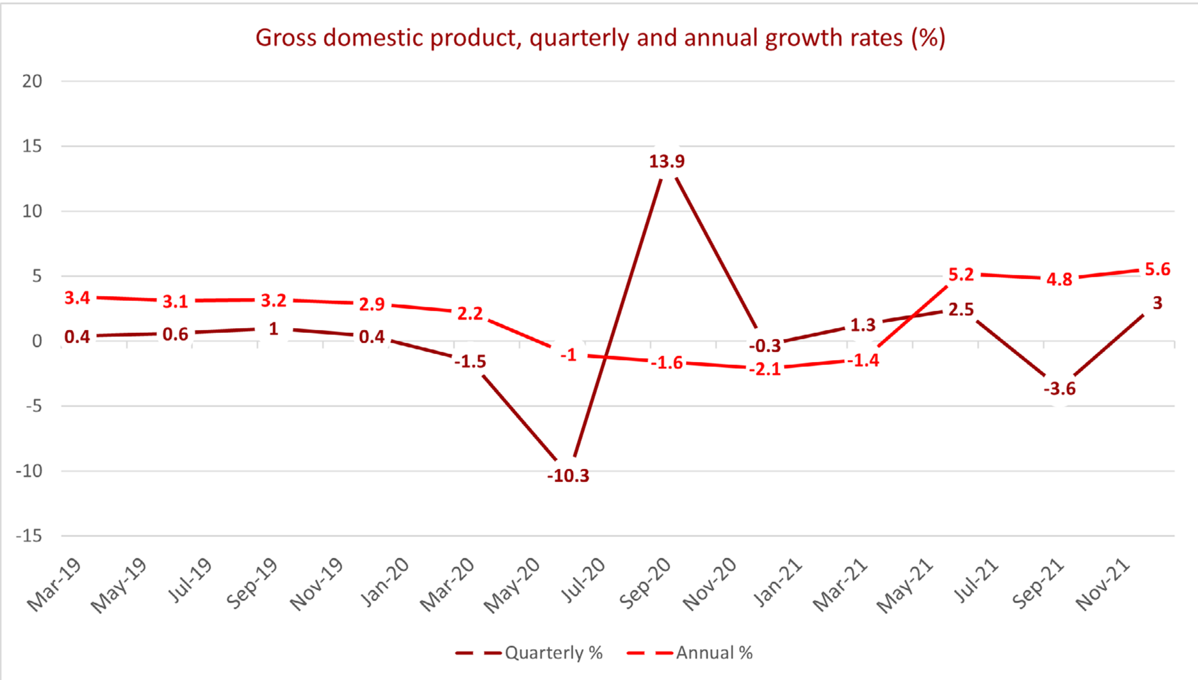
Gross domestic product

As reported in last months bulletin, annual GDP growth for the December quarter is a strong 5.6%, and above the OECD average of 5.5%, a good indicator that New Zealand's economy is rebounding positively following the pandemic and the brief covid induced recession of 2020.

Overall, the size of the New Zealand economy, based on the latest data, is $350 billion.

The graph below shows how following the March 2020 lockdown GDP declined 12.2% between April and June (the largest fall in GDP since 1987) before rebounding once more. The next GDP update for the March quarter figures will be 16 June.



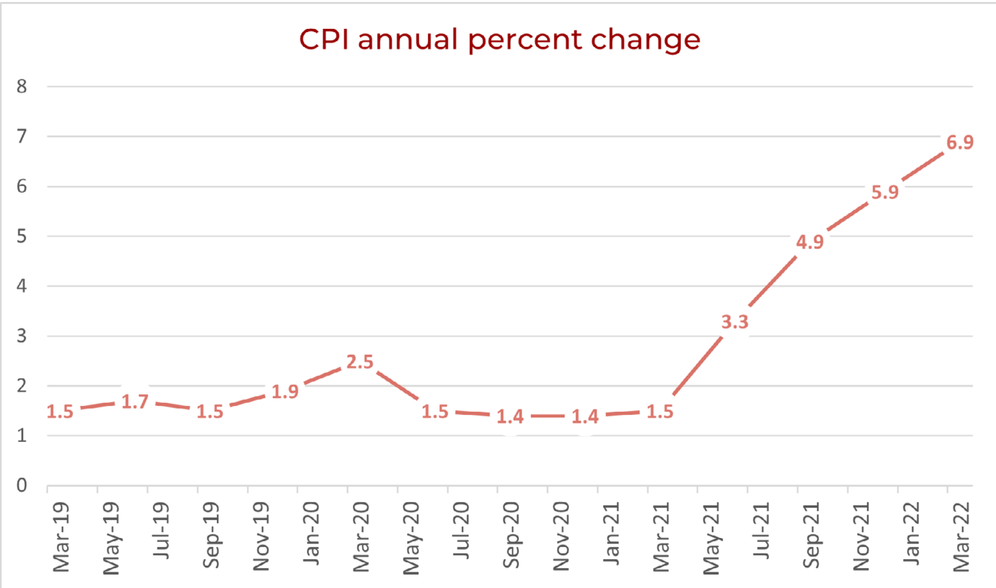


Inflation

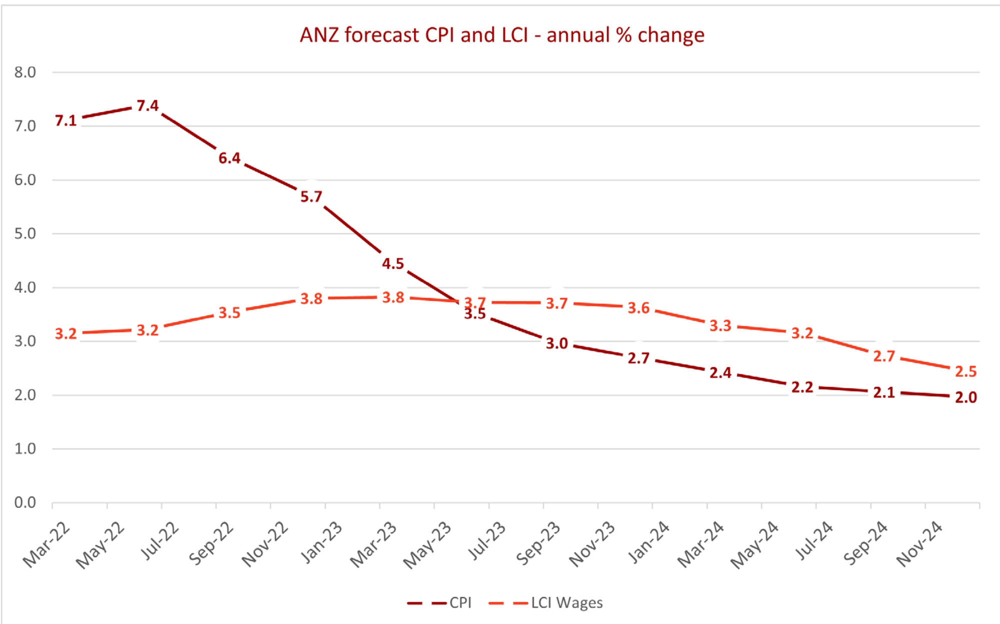
CPI and LCI percentage changes

Inflation updates for the March quarter put annual inflation rates at 6.9%, and a quarterly CPI figure of 1.8% from the previous December quarter. Just above NZEIs consensus forecast of 6.7% and below the Reserve Banks forecast of 7%,

This increase marks another historic rise in the CPI. Last December's 2021 figure of 5.9% was the largest annual increase in the CPI since September 2011. Similarly, the inflation rate of 6.9% is the largest increase in annual CPI in 30 years, after the 7.6% increase in June 1990



Although CPI, rent price index (RPI) and the food price index (FPI) are once again running higher than wages, meaning the spending power of workers earning has declined in real terms, ANZ's most recent predictions are still forecasting for CPI increases to drop below the labour cost index (LCI) around May of 2023.



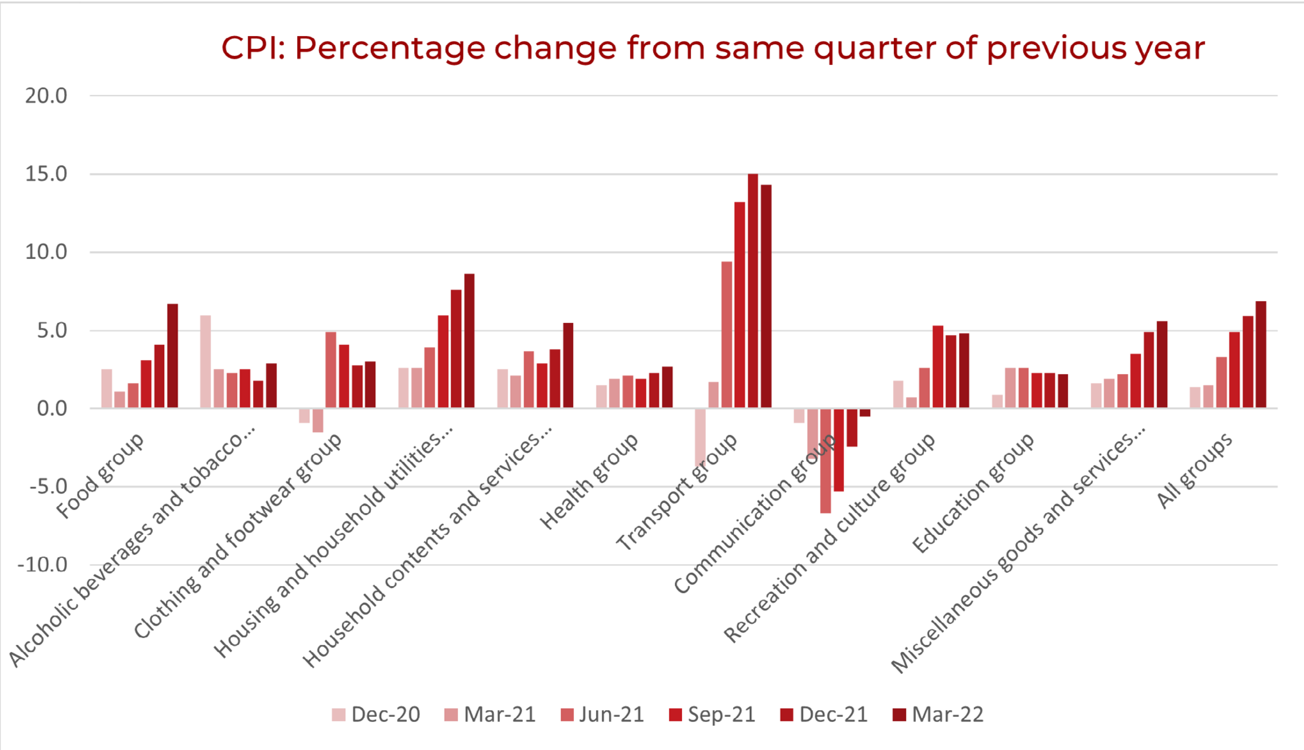
Contributions to CPI

The major key contributor to the March quarter CPI according to StatsNZ were food prices - particularly driven by the price of the major staples of fruit (12%), vegetables (7.3% since December and 24% since March 2021) and meat and poultry (3.8%). And the main contributor to the annual increase was the cost of purchasing a house/cost of construction (3.5% since December and 18% since March 2021) (minus the land).

CPI Summary March 2022

	% quarter	% annual
CPI	1.8%	6.9%
Tradeable	2.4%	8.5%
Non-tradeable	1.5%	6.0%

In terms of global vs domestic inflation, which can be viewed through the lens of tradeable items vs non-tradeable items. The increase in non-tradeables was, again, driven largely by the purchase of housing while tradeables were driven largely by the price of petrol (up 8.8% since December and 32% from March 2021).



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

Both the Rent Price Index (RPI) and the Food Price Index (FPI) are once more still running well ahead of wages at 2.6% (looking at the most recent December 2021 quarter Labour Cost Index - updates for the March 2022 quarter will be released in May).

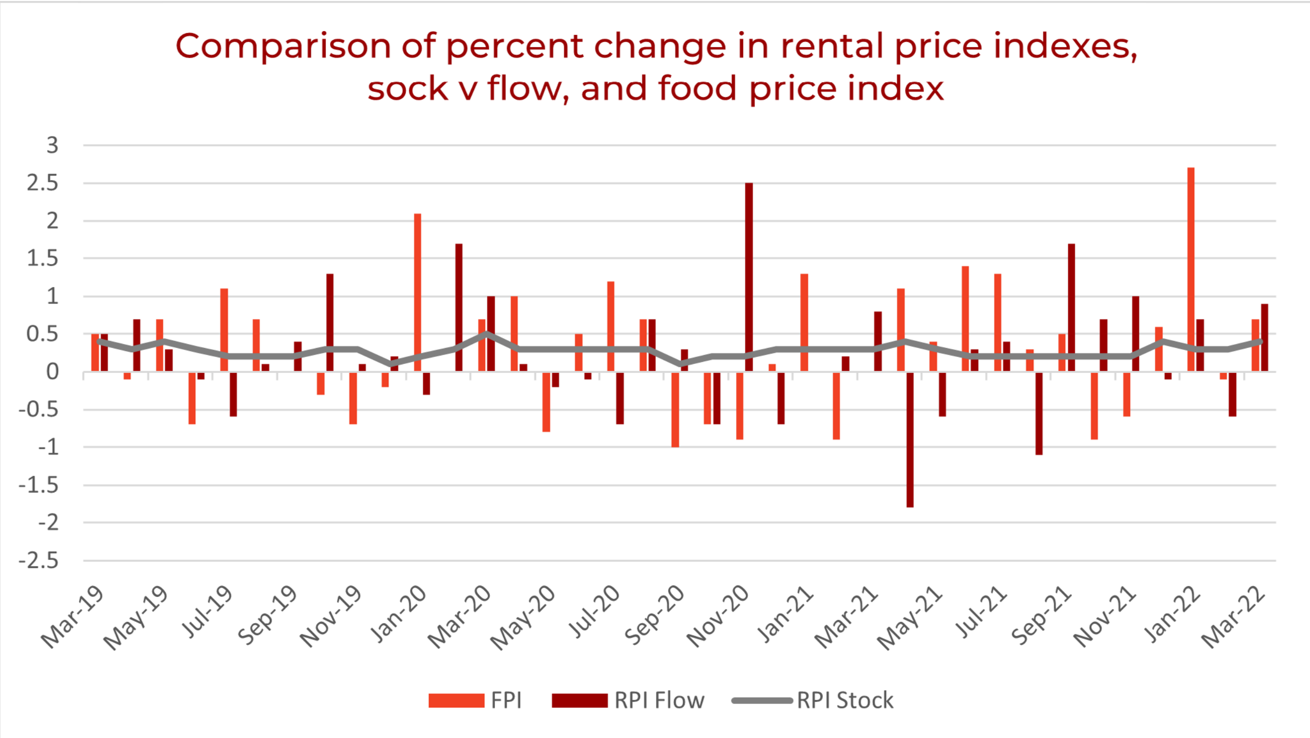
For March 2022, compared to March 2021, the index for the stock measure of rental property prices increased 3.7%, while the flow (new tenancies only) measure of rental property prices increased 5.8%. The monthly increase for March 2022 in comparison to February 2022, RPI flow increased by 0.9% and stock by 0.4%.

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

- March 2022 there was an increase of 5.8%
- 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%.

From a regional perspective, increases in the annual flow measure of rental prices in Wellington was lower in March than in February at 4.6% compared to 6.4%. In Auckland, the flow measure is stable at 2.7%. Meanwhile, the rest of the north island has increased a whopping 10.1%, with Canterbury and the rest of the south island increasing 9.5% and 9% respectively.

The monthly change in the flow measure of housing has declined in Wellington and the south island (excluding Canterbury) by 1.3% and 1% respectively. The North Island outside of Auckland saw the largest monthly increase of 3.8%, while Auckland increased by .9% in-line with the national average.



Food Price Index Monthly Change (seasonally adjusted)				
	Dec 21	**Jan 22**	**Feb 22**	**Mar 22**
Fruit and vegetables	▲1.1%	▲6%	▲0.6%	▲0.5%
Meat, poultry, and fish	▼0.6%	▲3.6%	▲0.1%	▲0.9%
Grocery food prices	▲0.8%	▲0.7%	▼0.1%	▲0.8%
Non-alcoholic beverage prices	▼1.2%	▲2.3%	▼0.3%	▲0.9%
Restaurant meals and ready-to-eat food	▲0.8%	▲0.3%	▲0.3%	▲0.3%

The annual increase of food prices was 7.6% for March. This is the highest annual FPI increase in a decade (July 2011 when the FPI was 7.9% as a result of an increase in GST from 12.5% to 15% in October 2010) and was up from February's annual increase of 6.8%.

According to Stats NZ the increase in food prices was fairly wide-spread across all categories, but the main influences were the usual vegetable culprits such as tomatoes, broccoli, and iceberg lettuce and cabbage, as well as milk and cheese.

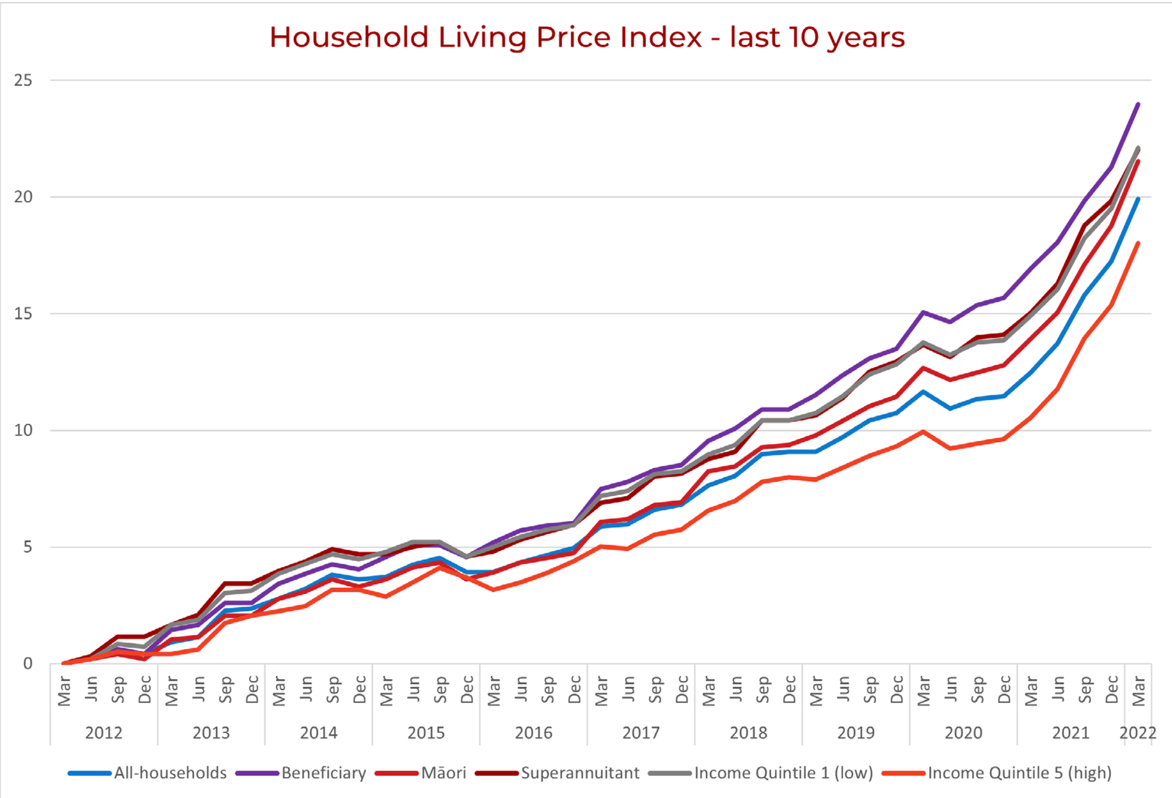
On the plus side, millennial's will be pleased to hear the cost of avocados has declined, making us all one step closer to homeownership.

Household living-costs price indexes (HLPIs)

StatsNZ has released their household living-cost price index for the March 22 quarter. The annual increase in inflation once more saw Māori households among the hardest hit having experienced inflation of 6.7% compared to the average for all households of 6.6%, next was superannuitants at 6.1% and Beneficiaries 6.0%.

The 6.7% for Māori was influenced largely due to increases in the cost of petrol, rentals for housing, and mortgage interest payments.

However, usually, we expect that those most likely to bear the brunt of inflation are those who are already earning a low income, and that has been the overall trend for the HLPI since the series began. However, this quarter saw those on the highest incomes experience inflation at 6.8% - just below CPI of 6.9%.



Generally, low-income households will be disproportionately impacted by the rising cost of essentials - food, power, petrol, housing and childcare.

This quarter beneficiary households main cost pressures were housing, household utilities and are more likely to use public transport over private cars.

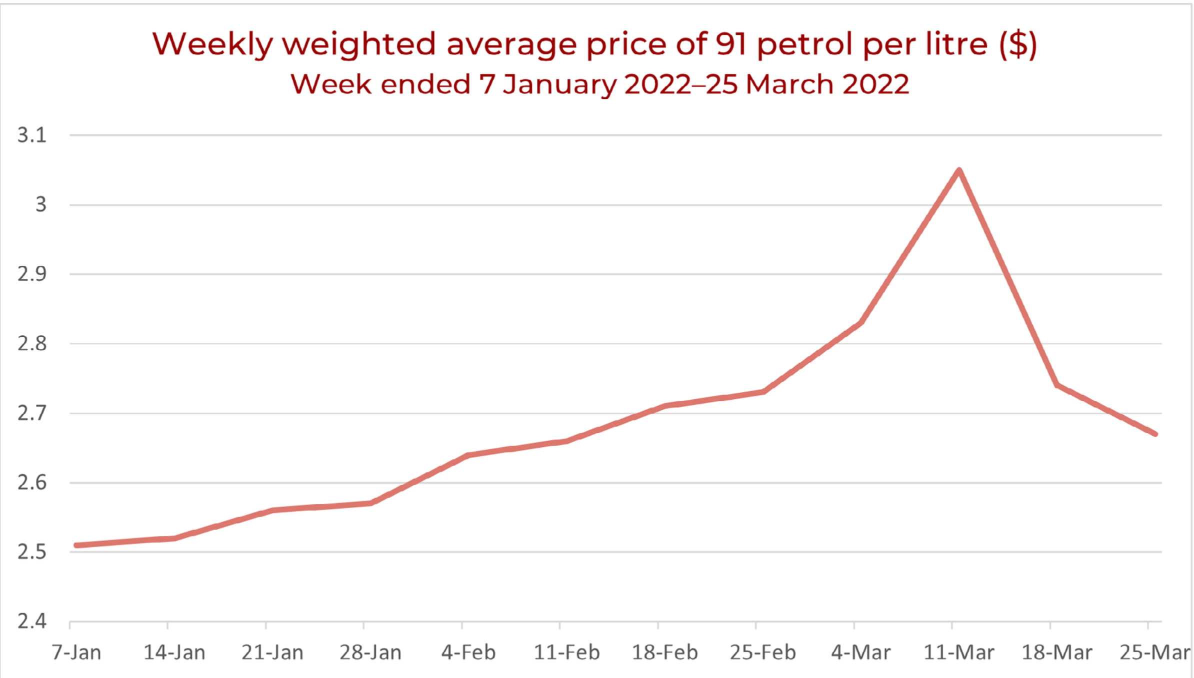
Cost of building a new house

The annual increase to the cost of construction of 18% in the March 2022 quarter was the largest increase recorded since the series began in 1985. According to StatsNZ, this increase is due to a combination of "supply-chain issues, higher labour costs, and higher demand, which have pushed up the cost of building a new house".

Petrol prices increase

StatsNZ reported that transport costs rose laregly due to the increase in petrol prices of 32% in the year to the March 2022 quarter, the largest annual increase since the June 1985 quarter.

The cost per litre increased dramatically over the last quarter, leading to ques of cars lining up outside stations hoping to fill up before further increases arrived. In the second week of March the average price of 91 petrol was $3.05, leading the government to announce they would decrease fuel excise duty by 25 cents per litre.



The national average price per litre for 91 Octane, according to StatsNZs March release was $2.67, an 8.7% increase from $2.45 in the previous quarter.

Labour Market Data

StatsNZ's most recent weekly employment indicators series, (which uses Inland Revenue's payday filing to collect data), shows that for the week ended 25 April median income was $1,147.85, an increase of $2.02 or 0.18%, in comparison to the week prior. The number of paid jobs was up by 5,240 and increased across most industries:

- primary industries were up 460 or 0.44 percent
- goods-producing industries down 490 or 0.11 percent
- services industries up 6,530 or 0.38 percent
- unclassified industries down 1,260 or 2.13 percent

Employment indicators for March showed that the total number of filled jobs was down 0.1% or 3,262 jobs, by industry the numbers are:

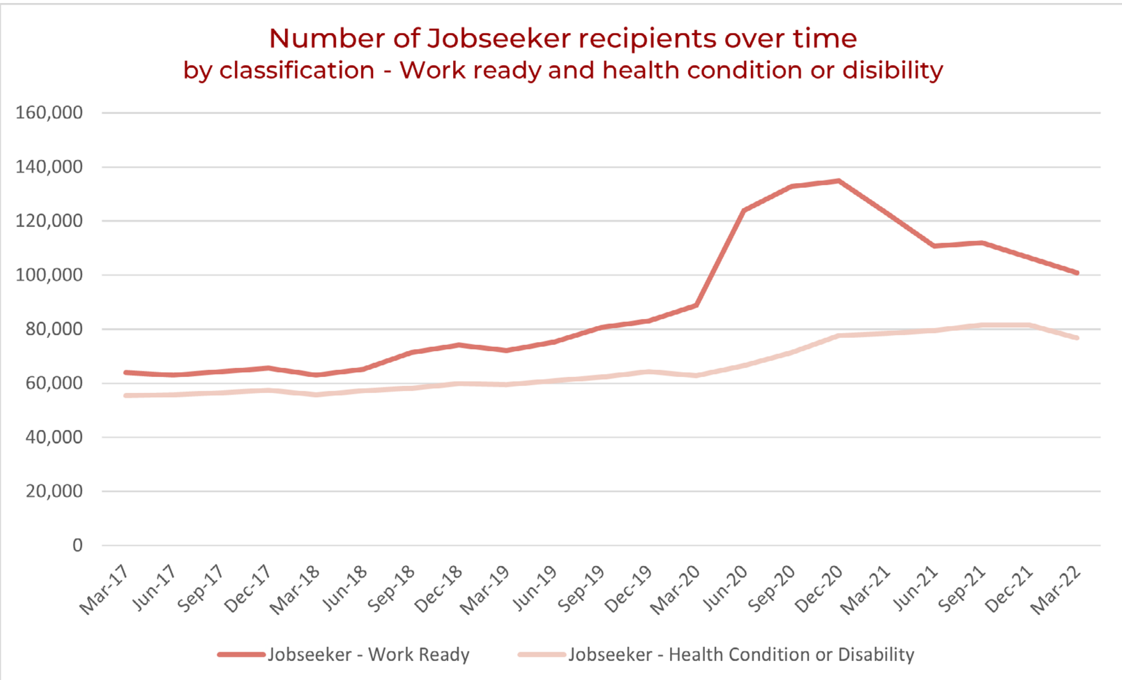
- primary industries – down 0.3 percent (351 jobs)
- goods-producing industries – up 0.3 percent (1,404 jobs)
- service industries – down 0.4 percent (6,084 jobs).

Labour market statistics for the March 2022 quarter is released by StatsNZ on May 4 and will be updated in the next Bulletin.

Jobseeker Benefits

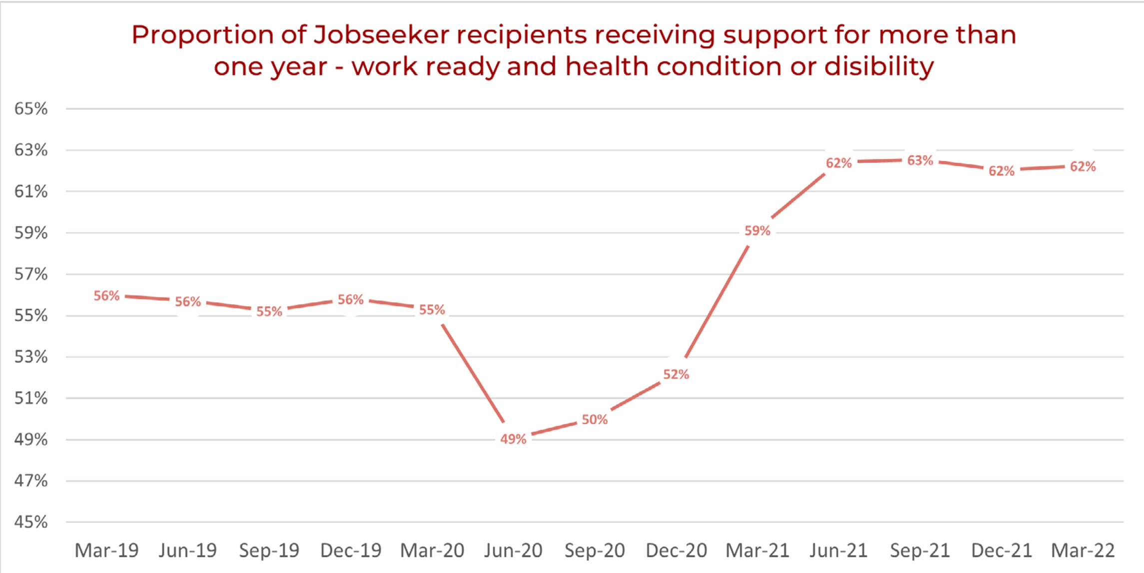
As of March 2022, there were a total of 177,642 people receiving Jobseeker support, made up of 100,854 who are work ready and 76,791 people with a health condition or disability this is a drop from December 2021 of 10,347 people in total.

Over the past 12 months - March 2022 when compared to March 2021 - there are now 23,658 fewer people receiving Jobseeker support payments, 22,017 of those people were work ready.

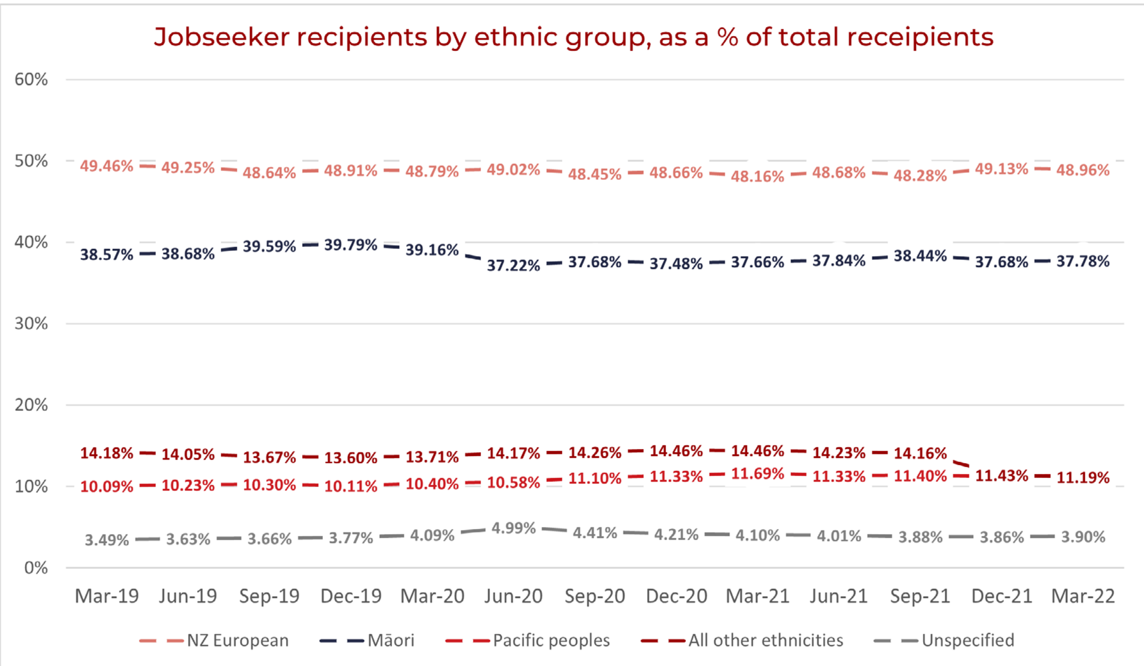


The number of recipients has been consistently increasing since September 2017, but has now been steadily declining each quarter since December 2020, with 34,824 fewer recipients in March 2022 compared to December 2020. The reason Jobseeker recipients are at 6% while the unemployment rate is at 3.2% is because you can receive Jobseeker alongside part-time paid work less than 16 hours per week.

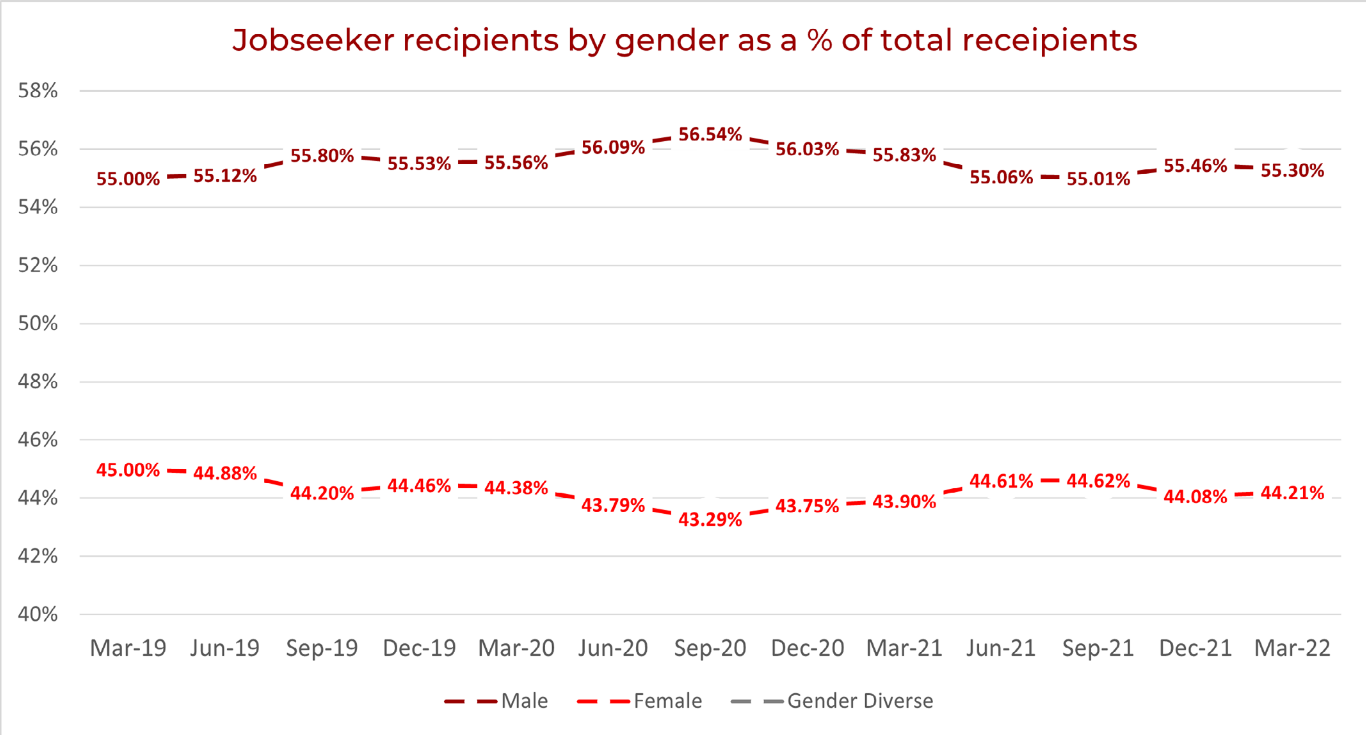
According to the Ministry of Social Development (MSD), for the March 2022 quarter, there was 5,508 fewer people receiving Jobseeker - Work Ready and 4,836 fewer people receiving Jobseeker - Health Condition or Disability. For the March quarter, there was also a decline of 6,042 people receiving Jobseeker support for longer than one year.



The graph below on Jobseeker - Work Ready recipients by ethnic group, sourced from MSD's latest benefit fact sheet, shows no significant change in the proportion of people receiving Jobseeker support from Work and Income for the March 2022 quarter compared to the previous quarter.



The graph below '*Jobseeker recipients by gender, as a % of total recipients*' also shows no significant change over the last quarter and shows that men are still 10% more likely to be on a Jobseeker unemployment benefit than women.



Gender pay gap

New research has been released by the Retirement Commission showing how the gender pay gap continues to impact women into retirement. The report released in the first week of April showed that men's KiwiSaver retirement savings were on average 20% higher than women's - with the gap widening to 32% for women in their 50s. According to the Retirement Commission, men's Kiwisaver funds consistently track higher than women's across all age groups, from the time they first enter the workforce as adults, with the gap growing progressively larger over time.

This has real impacts on the quality of life for women over a lifetime and raises some real concerns about the quality of life for retired women who on average live longer than men. According to StatsNZ the life expectancy for New Zealand men is 80.0 years and 83.5 years for women. It also leads into another conversation around the value we place on unpaid labour that usually falls on women such as childcare, housework, and caring for elderly family members.

Economic Indicators

Consumer spending and confidence

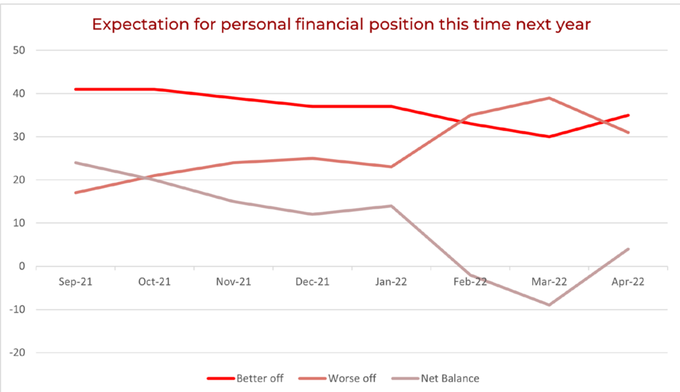
Last month, the consumer confidence indicators for March (released April 1) were very bleak indeed and had dropped a further 4 points to 77.9, the lowest since records began in 2004. However, April has seen a positive rebound of 6 points to 84.4 — meaning consumer's perceptions of their financial wellbeing are looking up, but overall outlook is still pessimistic.

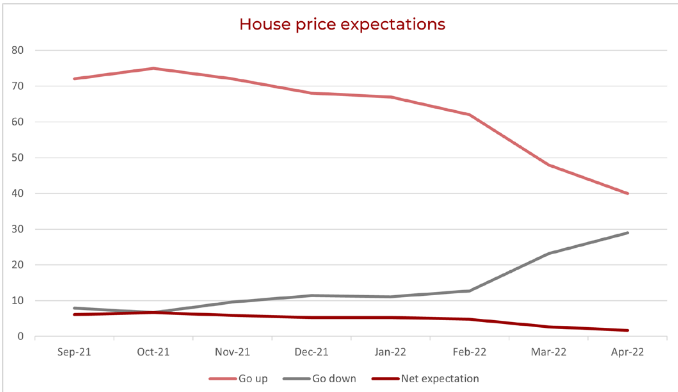
An index of 100 is the separation between a pessimistic consumer confidence outlook and a positive one. The last time the index was above 100 was in September 2021 at 104.5.

Consumer confidence is still low, but the upward trajectory looks hopeful, with the proportion of people who believe it is a good time to buy a major household item increased 3 points to -23%. With 27% of people thinking it's a good time to by, and 50% thinking it's a bad time to buy — the net difference being -23%. The question of whether people believe it's a good time to buy a major household item is often used as the major indicator in consumer confidence.

Overall, people's perceptions of their current personal financial position are up 9 points to -15 with 43% believing they are financially worse of now than this same time last year. Perceptions look better, when asked about their outlook for the future with 35% who think they'll be better off this time next year, compared to 31% who think they'll be worse of. A net 4%, up 13% from March.

House price inflation expectations fell from 2.7% to just 1.7%. The question the survey asks is "thinking about the price of houses during the next 2 years, do you think that the price of houses in general will go up, go down, or stay where they are now?" 40% believe house prices will rise, while 29% believe they will go down.





It's hard to pin down what's driving the uptick in consumer confidence but it's likely a combination of factors, the country has eased Covid-19 restrictions significantly, moving to the orange light in the framework, begun easing border restrictions including opening up international travel. The Government acted fast with the fuel excise tax and half-price public transport to ease the pressure of inflation. House prices have begun to slow, depending on which side of the equation you sit could be seen as either good news or bad news. If you're already a home owner, your sense of wealth tucked away in housing assets will have declined, but if you're a renter your future goal of one day becoming a home owner may be starting to feel a little more achievable. Caught in the survey was the RBNZ increase to the Official Cash Rate by 50bp and the latest inflation data of 6.9%

Card spending

ANNUAL

For March 2022, compared to March 2021 retail spending has declined 0.5% ($27 million) and hospitality spending has declined by 14.3% ($149 million), which is likely a result of the Omicron wave of Covid-19 and the red traffic light settings.

StatsNZs retail trade survey for the March 2022 quarter will be released May 24 and included in the next Bulletin.

MONTHLY

According to StatsNZ, card spending for March has increased 1.6% ($124 million), which follows the February reported drop in card spending of 7.8% according to ASB.

This $124 million is driven by increases and decreases in spending across sectors. Spending on non-retails industries such as travel agencies and tour arrangements were up 14.5% from February as a result of announcements made about reducing restrictions on international travel.

The amount spent on vehicles increased 2.7%, while the amount spent on fuel declined 0.1% likely due to the reduction in fuel excise duty. Spending on consumables and apparel also declined 3.3% and 6.9% respectively.

Bonds

10 year Bond Yields have increased to 3.68 on 28 April. Future forecasts estimate NZ Government Bonds 10Y to trade at 3.98 in 12 months' time. This is nearly 8 times the rate of 2021.

Net international liabilities

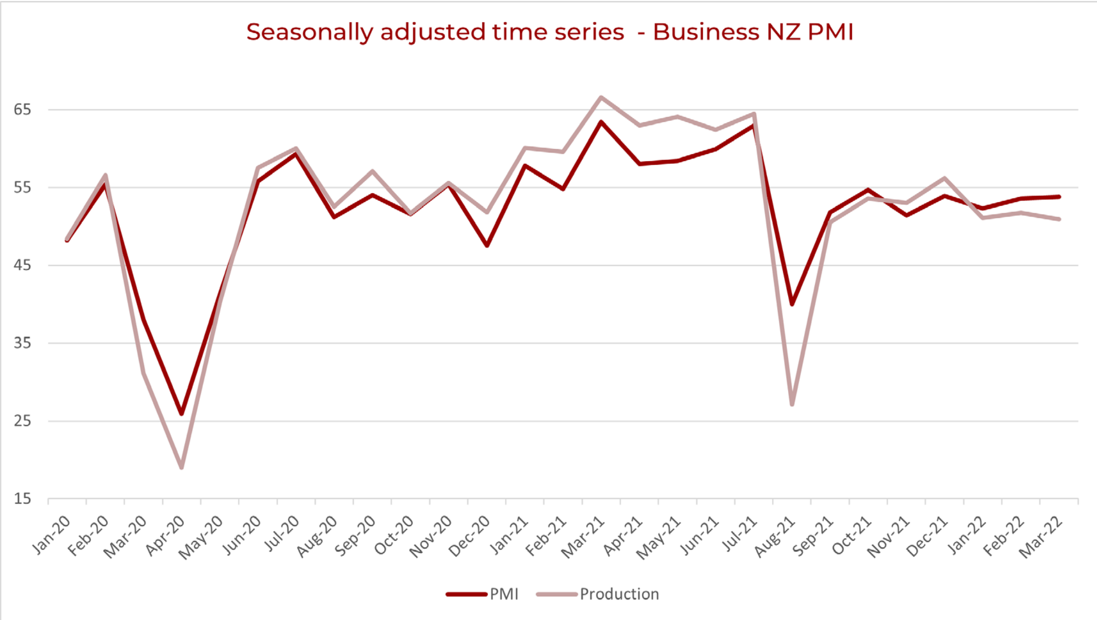
- The country's Net International Liabilities as at 31 December 2021, released in March 2022, was $161.3 billion, up from $163.9 billion at 30 September 2021.
- Net international liabilities and net external debt for the September quarter were equivalent to 46.1% and 49.3% of GDP respectively.
- New Zealand's seasonally adjusted current account deficit was $6.5 billion - up from $4.8 billion in September.
- The current account deficit for the year ended 31 December 2021 widened to $20.2 billion (5.8% percent of GDP) from the $2.7 billion deficit for the December 2020 year (0.8 percent of GDP).
- New Zealand's current account balance was a seasonally adjusted $6.5 billion deficit, up from the $4.8 billion deficit in the September 2021 quarter.
- The widening of the seasonally adjusted current account deficit was the result of a $417 million widening of the goods deficit and a $1.1 billion widening of the services deficit.
- The annual current account deficit was $20.2 billion in the year ended 31 December 2021 (5.8 percent of GDP), $17.6 billion wider than the year ended 30 December 2020.
- The main drivers of the annual current account deficit was the goods balance that went from a $3.1 billion surplus in the year ended 30 December 2020 to a $6.2 billion deficit and the services balance that went from a $1 billion surplus to a $5.4 billion deficit.
- Seasonally adjusted goods imports were up $926 million and goods exports were up $509 million. This resulted in a widening of the goods deficit by $417 million, to $2.3 billion. The increase in goods imports was driven by increases in transport equipment, crude oil, and fertiliser. The increase in goods exports was driven by dairy products, mechanical machinery and equipment, and aluminium. This was partially offset by a fall in the export of logs.
- The seasonally adjusted services deficit was up $1.1 billion in the December 2021 quarter, with imports up $616 million and exports down $489 million. The increase in seasonally adjusted service imports was driven again by transport services imports, up $196 million.

Balance of payments and international investment position: March 2022 quarter will be released on 15 June 2022.

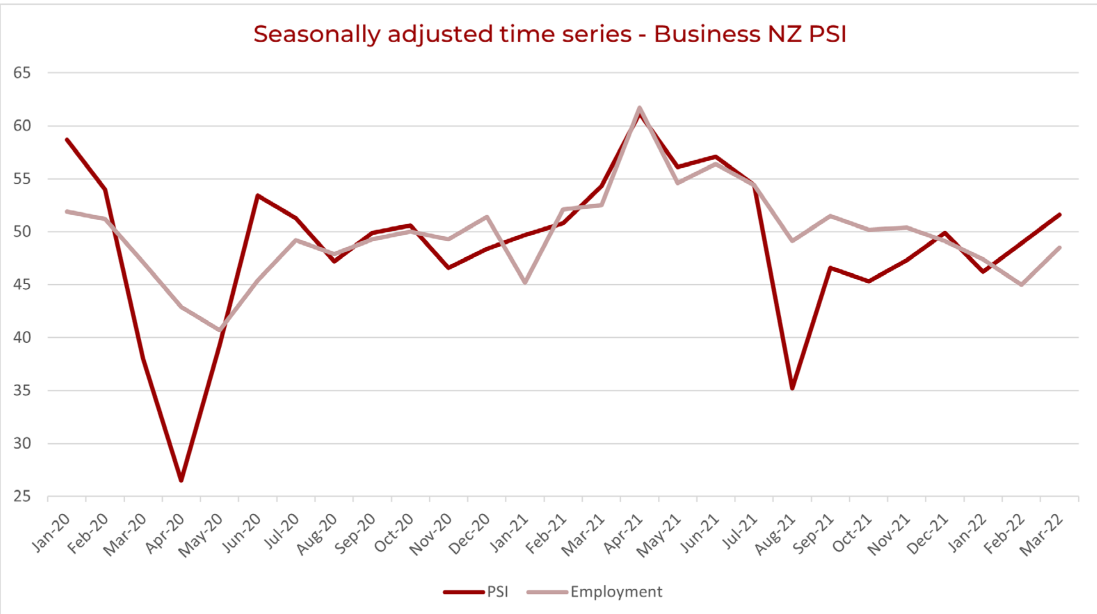
Other economic indexes

The Performance of Manufacturing Index (PMI) for March 2022 increased 0.2 to 53.8, which indicates the sector is expanding. 53.8 is also above the long-term average of 53.1. The employment sub-index was 52.4 up slightly from 52 in February.

For the PMI and PSI, a figure under 50 indicates falling activity, above 50 indicates growing activity.



The Performance of Services Index (PSI) for March 2021 showed that the service sector was now expanding after seven consecutive months of a contraction. The index for March was 51.6 up 2.7 from February. This figure is still below the long-term average of 53.6 for the survey. The Employment sub-index of 48.5 was up from February's 45 but was still contracting.



Real estate

According to the Real Estate Institute of NZ (REINZ), the median price for a residential property across the country for March 2022 has increased slightly from $885,000 in February to $890,000, an increase of 9% from March 2021.

Properties available for sale across New Zealand have increased 32% year-on-year, however, the number of listings decreased by 0.9%. In Wellington and Manawatu/ Whanganui inventory doubled with increases of 158.7% and 105.2% respectively. Properties available for sale in Bay of Plenty, Hawke's Bay, Nelson, and Waikato also increased by over 50% since March 2021.

REINZ in their latest monthly report stated "At the same time [as stock levels increased], we have seen the number of new listings decrease in some areas — suggesting that some potential vendors are showing caution and choosing to delay selling due to continued market uncertainty around COVID-19, interest rates, and financial and economic factors."

In December REINZ reported high demand and sales volume with 29 days being the median days to sell a home. For March the median number of days to sell a house is now 36 days.

Median house price year-on-year

- **National:** $890,000 - up from $825,000, +7.9% year-on-year
- **New Zealand Ex Auckland:** $775,000 - up from $679,000, +14.1% year-on-year
- **Auckland:** $1,200,000 - up from $1,125,000, +6.7% year-on-year
- **Wellington:** $939,300 - up from $880,000 +6.7% year-on-year

Median house price March/February

- **National:** $890,000 - up from $885,000, +0.6% since last month
- **NZ excluding Auckland:** $775,000 - down from $785,000, -1.3% since last month
- **Auckland:** $1,200,000 - up from $1,190,000, +0.8% since last month
- **Wellington:** $880,000 - down from $995,000, -11.6% since last month