Te Kauae Kaimahi

Monthly Economic Bulletin

June 2022 - Future of Work, Good Work & Low Wages

NEW ZEALAND COUNCIL OF TRADE UNIONS
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Monthly Economic Bulletin
June 2022

Introduction

Welcome to the June edition of the CTU's monthly Economic Bulletin, it's hard to believe we're halfway through the year already.

Highlights of this bulletin include a rundown on the Future of Work programme, our role in the tripartite forum, and where you can access regular updates on that work including just transitions and good work.

We also delve into wage rates in New Zealand in comparison to other OECD nations, and look into growth in the minimum wage in comparison to the average wage. Alongside this, we provide an update on the usual economic indicators and forecasts.

As part of our regular update on the Reserve Banks' position on the Official Cash Rate, we dive into a discussion on the likelihood of a recession coming in the first half of 2023. Including looking into what other banks and economists are expecting for New Zealand's economic outlook in light of the OCR settings, the war in the Ukraine, inflation, house prices and the increasingly volatile global economy.

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.

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The Future of Work

Last month the Government released its 2022 Wellbeing Budget “A Secure Future”, with the underlying goal of a “high wage, low carbon economy that provides economic security in good times and bad”. This vision for Aotearoa and the Budget aligns with the work the CTU is doing in the Future of Work and Just Transition spaces and accounts for two of the Government’s five wellbeing objectives for 2022:

1. **Just Transition -** supporting the transition to a climate-resilient, sustainable and low-emissions economy
2. **Physical and Mental Wellbeing -** supporting improved health outcomes for all New Zealanders and minimising COVID-19 and protecting our communities
3. **Future of Work -** enabling all New Zealanders and New Zealand businesses to benefit from new technologies and lift productivity and wages through innovation
4. **Māori and Pacific Peoples -** lifting Māori and Pacific Peoples incomes, skills and opportunities, including through access to affordable, safe, and stable housing
5. **Child Wellbeing -** reducing child poverty and improving child wellbeing, including through access to affordable, safe and stable housing.

So what exactly is the Future of Work?

The Future of Work is an organising theme that ties together many of the CTUs strands of work and is central to our advocacy efforts.

The Future of Work Tripartite Forum (the Forum) is a partnership between the NZ Council of Trade Unions (and our affiliates), Business NZ (and affiliates), and the Government. MBIE’s Transition Support unit acts as the Forums secretary and they regularly update FoW content on their website. The Forum meets three to four times a year to discuss big topics and scope priority areas moving forward and is co-chaired by Grant Robertson, Kirk Hope (Business NZ) and Richard Wagstaff.

The Forum’s main priority areas are on support for displaced workers, Industry Transformation Plans, lifelong learning, and better support for vulnerable workers. It’s the forum’s focus on support for displaced workers that led to the development of Social Unemployment Insurance.

The CTUs role in the forum is to advocate for workers, and ensure the government has the necessary strategies, policies and programmes in place to ensure a just transition for workers, their families and communities affectedby economic change and disruption.

Another goal of the forum is to form consensus with Business and the Government as we work towards these goals. Forming consensus often involves compromise but it should also ensure enduring change and initiatives that should be able to withstand a change in government.

This year the big themes are Just Transitions 1 Learning from experience: anticipating & preparing; Good Work; Just Transitions 2: Lifelong learning; and the Māori Future of Work.

A focus on Just Transitions is timely as the Government is publishing New Zealand’s first Emissions Reduction Plan and National Adaptation Plan in 2022. How we mitigate and adapt to climate change will be a major driver of economic disruption in the coming years and decades (although not the only driver – technology, demographics, our broader relationship with the natural environment, and international geopolitics will also drive economic change). The legislation underpinning New Zealand's response to climate change mandates that this response needs to consider the negative impacts of any changes.

The Future of Work tripartite forum has expanded the scope of a just transition to include a just transition for workers and communities from economic, global and technological shocks to the economy and workplace, and the impact of government reforms on workplaces. If we look back at the impacts of the Rogernomics reforms on workers, particularly the impacts of the State-Owned Enterprises Act where within a week of the Act being passed 4,732 people had taken voluntary redundancy and another 100 went for early retirement, largely in small town and rural New Zealand. From the past, we have learned that the consequences of these reforms are a very good argument in favour of initiatives like Social Unemployment Insurance.

The Forum Governance Group agreed to hold two discussions on just transitions in 2022:
- An initial session on 28 March 2022 agreed on a working definition of just transition, heard about the Government's approach to just transitions, started to identify potential gaps or areas of focus, and commissioned officials and the social partners to do further work.
- A follow-up discussion on 19 September will identify key gaps and prioritise the changes required to support a just transition.

The further work commissioned comprised the following:
- A gap analysis of the broader just transition system
- Providing for the capital needs of a just transition
- The likely areas of job gain and loss, including a gender and household analysis
- How the Forum can get ahead of future change

Good Work
The CTU has identified eight elements of Good Work that was agreed by the Forum. We worked worked with the Forum to form a consensus on these elements. Work is ongoing as to how these elements will be measured and evaluated. As a starting point, this framework (see overleaf) was agreed and adopted by the Forum.

One of the practical outcomes of the Forum was the agreement to develop a proposal for a resource that provides practical support for workers and employers to improve the quality of work. This would include support to encourage more participatory management approaches.

This work is still ungoing and will added to by the finding of the Māori Future of work group later in the year. The CTU Rūnunga is working closely with our social partners on what mahi tūturu means for Māori.

Lifelong learning and opportunity: Working people have access to and receive training that enables them to reach their full potential.

Fair wages and economic security: Delivers a fair income including pay rates that are reflective of skills, experience, and responsibility.

Productive: Engages employees in a productive and cooperative endeavour that is recognised as making a valuable contribution, which enhances firm performance through innovation rather than work intensification.

Free from worker exploitation: Recognises and prevents the power imbalance that leads to exploitative practices. Enables everyone to claim their rights and have them enforced.

Meaningful and fulfilling: The design of work affords working people with a sense of purpose and achievement.

Worker voice: Provides an environment where workers can speak up individually and engage in industrial democracy collectively.

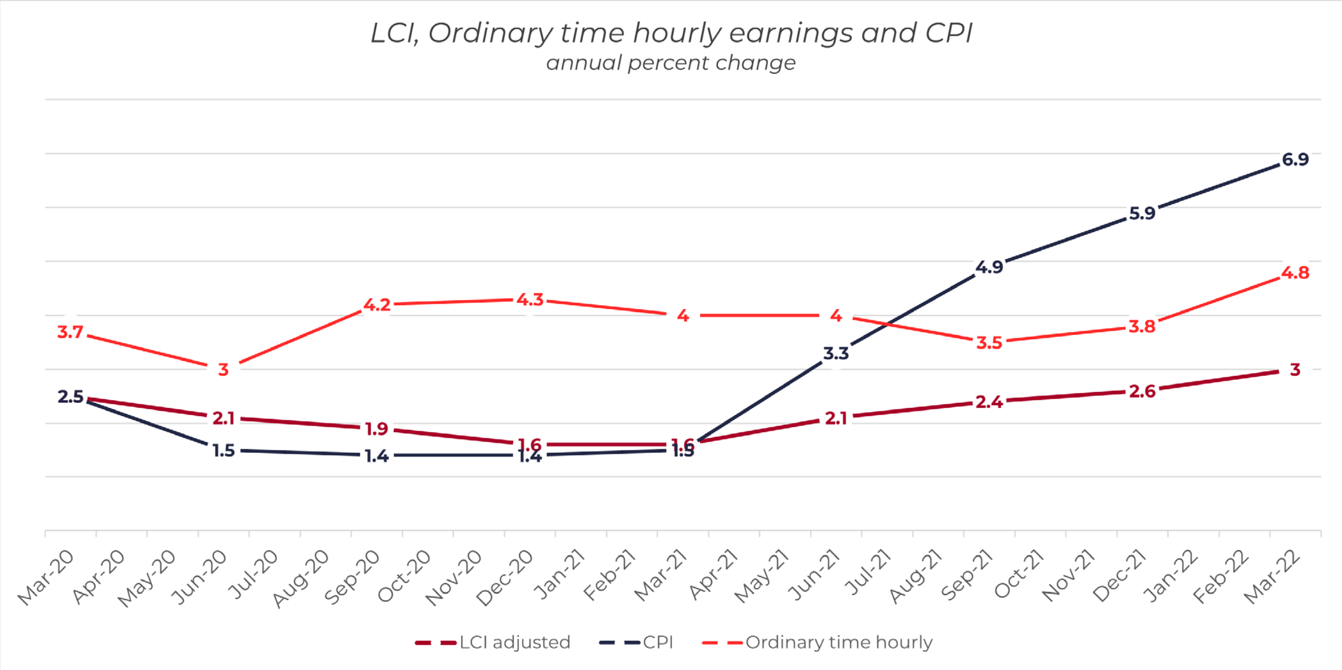
Health and safety and wellbeing: Protects against harm to both physical health and psychological health.

Environment: Enterprises and workers contribute to a production process that is environmentally sustainable.

Labour Market Data

Wages reach largest increase since 2009

For the March 2022 quarter, the Labour Cost Index (LCI) has increased 3% in comparison to March 2021. Although this is a record increase for wages, due to the current inflation rate of 6.9%, in real terms it's the equivalent of a pay cut of 3.9%. As you can see from the below graph, CPI has outstripped wages by a significant margin for the last four quarters.



Average hourly ordinary time earnings

That being said, annual average hourly ordinary time earnings for March 2022 compared to March 2021 (measured by the Quarterly Employment Survey) are up 4.8% at $36.18.

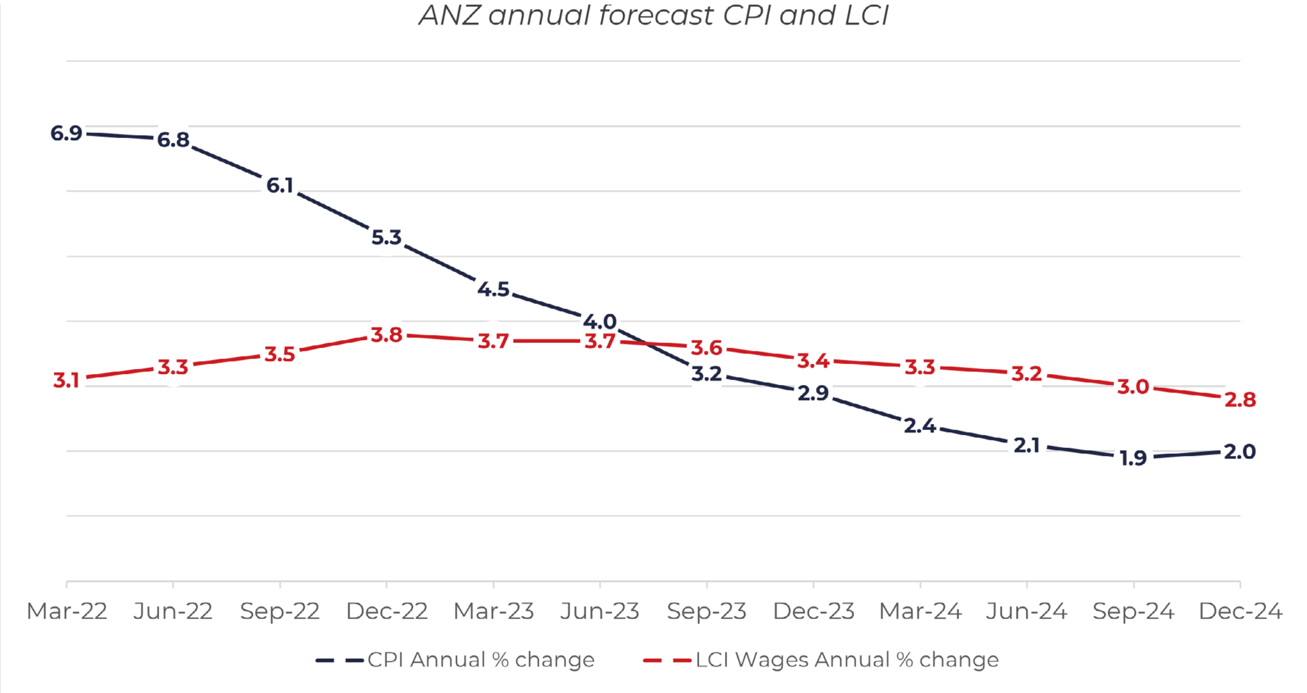
On a quarterly basis, average hourly earnings are up 1.6% and CPI for the quarter is not far off at 1.8% leaving purchasing power for wages relatively unchanged over the last 3 months.

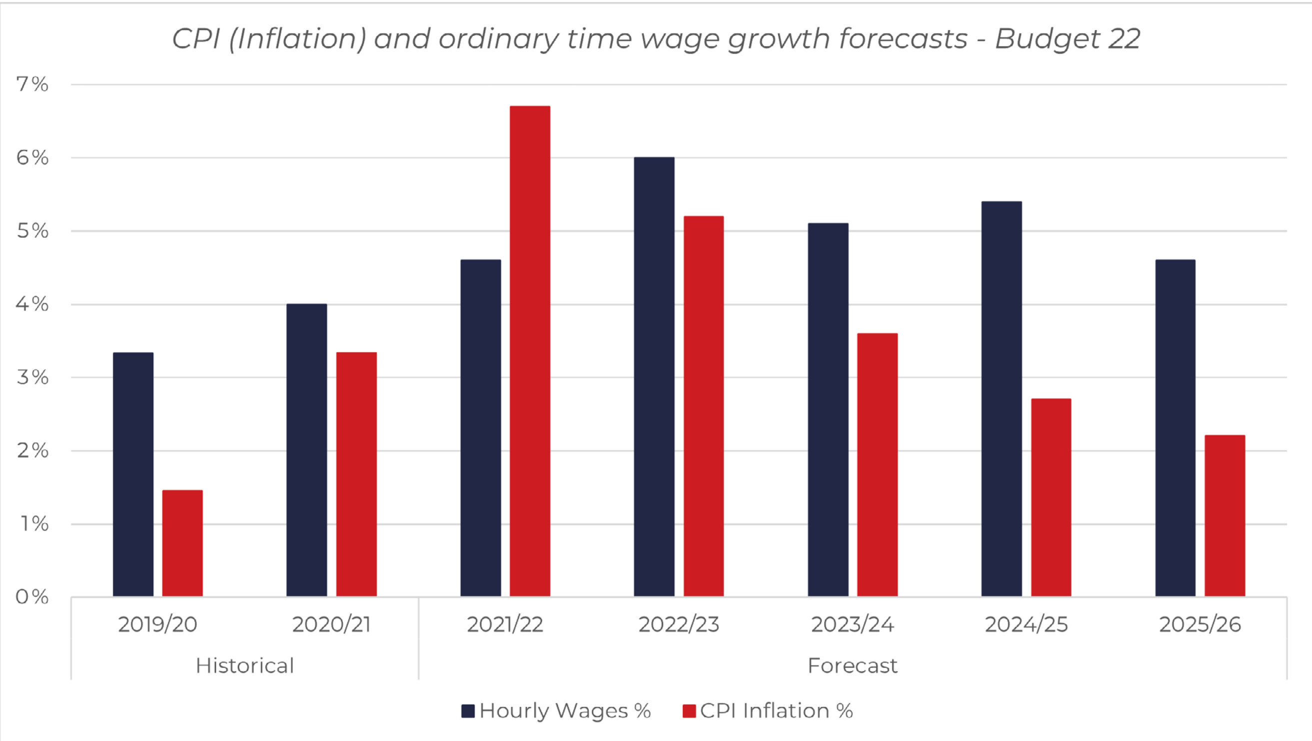
Total average hourly earnings, which includes ordinary time and overtime, for the March quarter were up by 2% from the previous quarter. With CPI for the same period sitting below that at 1.8%, wages for those who earn overtime have just marginally outstripped CPI.

LCI is often smaller (3%) than the change in average ordinary time hourly earnings (4.8%). This is because the adjusted LCI is the price for a fixed quality and quantity of labour, such as the cost of a plumber doing the same job each time for the same amount of time. While the average hourly ordinary time earnings measures the individual income received by workers and includes pay rises from promotions and switching to a different job.

Average hourly ordinary time earnings is seen as less reliable than the LCI because it's more easily skewed by compositional changes in the workforce such as changes in the make-up of the workforce between higher and lower paid workers.

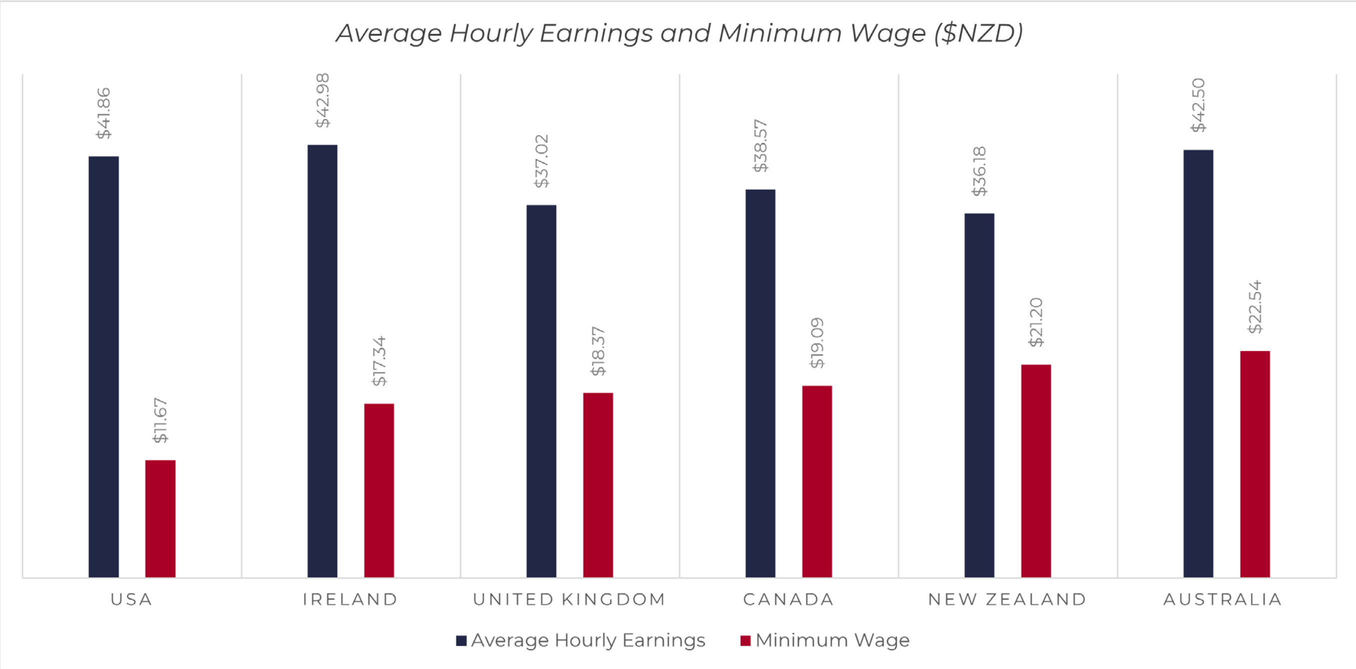
According to Treasury's Budget Economic Fiscal Update and recent ANZ forecasts, there is hope on the horizon with both still expecting wages to catch up with and consistently outstrip inflation beginning in March/June 2023 through to the end of the forecast period in July 2026.





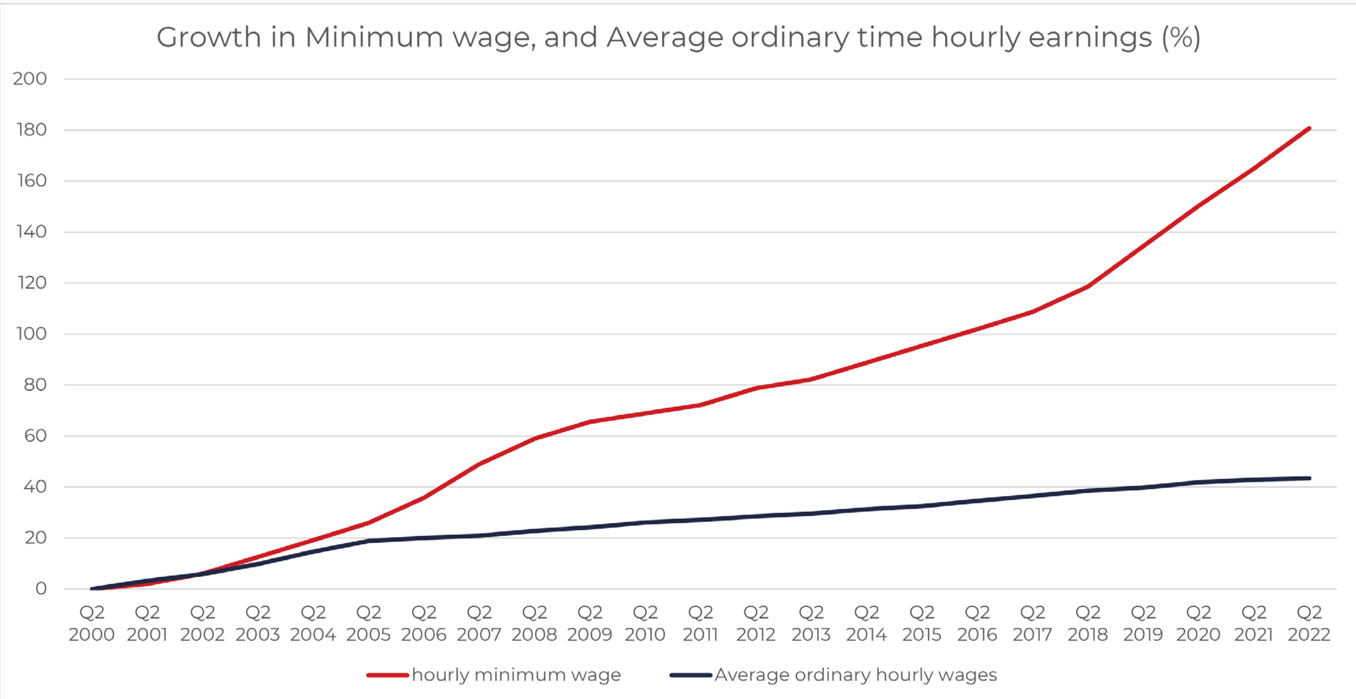
Average hourly earnings and minimum wage

The graph below compares New Zealand's minimum wage and average hourly wages to similar economies with comparable data. It shows that while New Zealand has one of the highest minimum wages at $21.20 (still below Australia's $22.54), we have the lowest average hourly rate ($36.18) when compared to the USA ($41.86), Ireland ($42.98), UK ($37.02), Canada ($38.57) and Australia ($42.5) (all figures are in NZ dollars).



New Zealand wages are winning in the race to the bottom, and we clearly have a long way to go if we wish to be a high-wage, high-skilled economy. According to Auckland University of Technology, New Zealand has more than 50,000 working households living below the poverty line.

The evidence from Australia suggests their wage structure supports higher wages for Minimum Wage workers and for average wage workers. This is probably as a consequence of their National Awards, which like proposed Fair Pay Agreements in New Zealand set minimum terms and conditions in sectors. Fair Pay Agreements, however, are better placed, by design, to deliver a higher-waged, more productive economy. This is because FPAs remove the incentive for competing businesses within an industry or sector to undercut each other by offering lower wages and stopping the race to the bottom on pay and conditions.



Monthly Employment Indicators

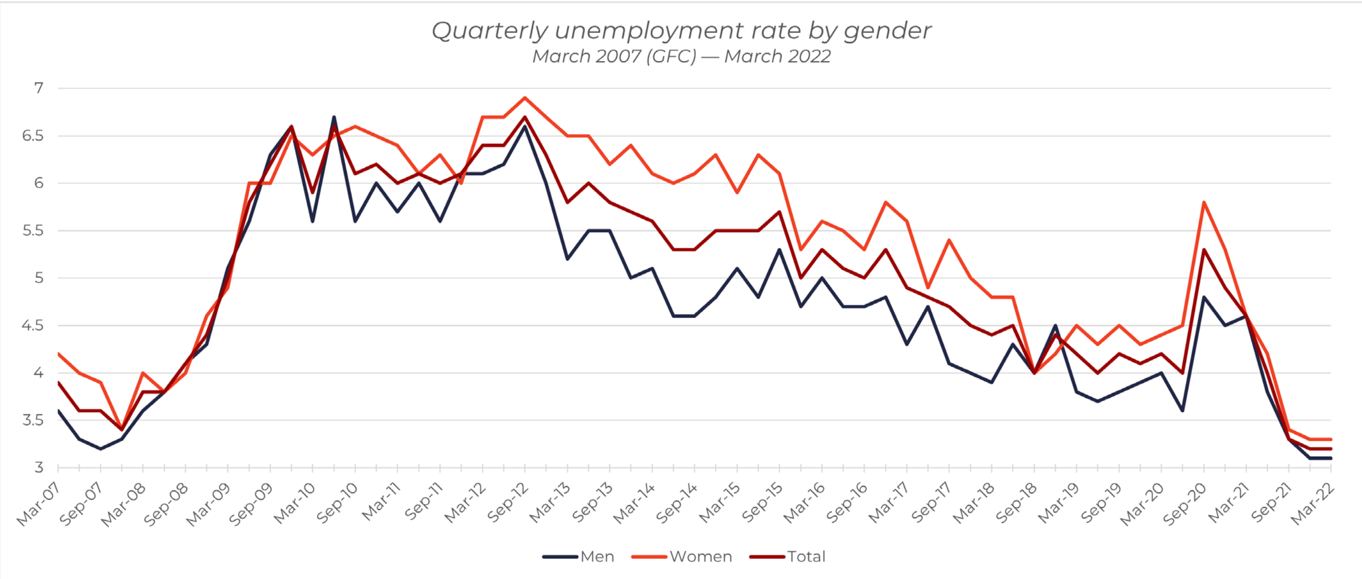
Employment indicators for May, released 28 June, showed that the number of jobs filled was up across all industries by 7,454 jobs or 0.3% to reach 2.29 million. Filled jobs were also up across all regions.

- goods-producing industries – up 0.3 percent (1,178 jobs)
- primary industries – unchanged at 0.0 percent (down 34 jobs)
- service industries – up 0.3 percent (4,496 jobs).
- professional, scientific, and technical services – up 7.4 percent (13,191 jobs)
- construction – up 5.4 percent (10,323 jobs)
- retail trade – up 3.6 percent (7,405 jobs)
- health care and social assistance – up 2.7 percent (6,897 jobs)
- public administration and safety – up 4.7 percent (6,847 jobs).

Unemployment rate lowest on record

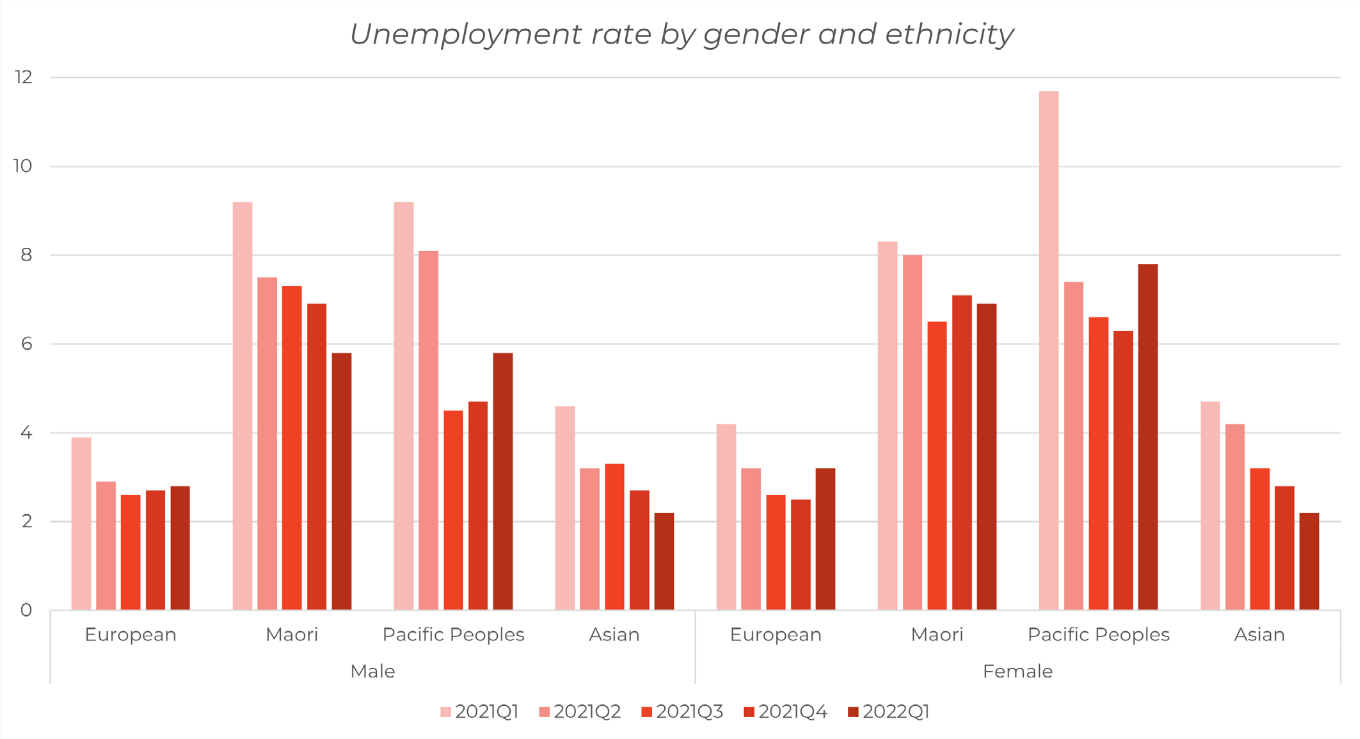
The latest unemployment statistics for the March 2022 quarter has New Zealand's official unemployment rate at 3.2% or 94,000 people. This is the lowest unemployment rate since the Household Labour Force Survey (HLFS) began in 1986.

In March 2022, there were 2,270,000 people in full-time employment — an annual increase of 3.2%. There were also 567,000 people working part-time — an annual increase of 5.7%.

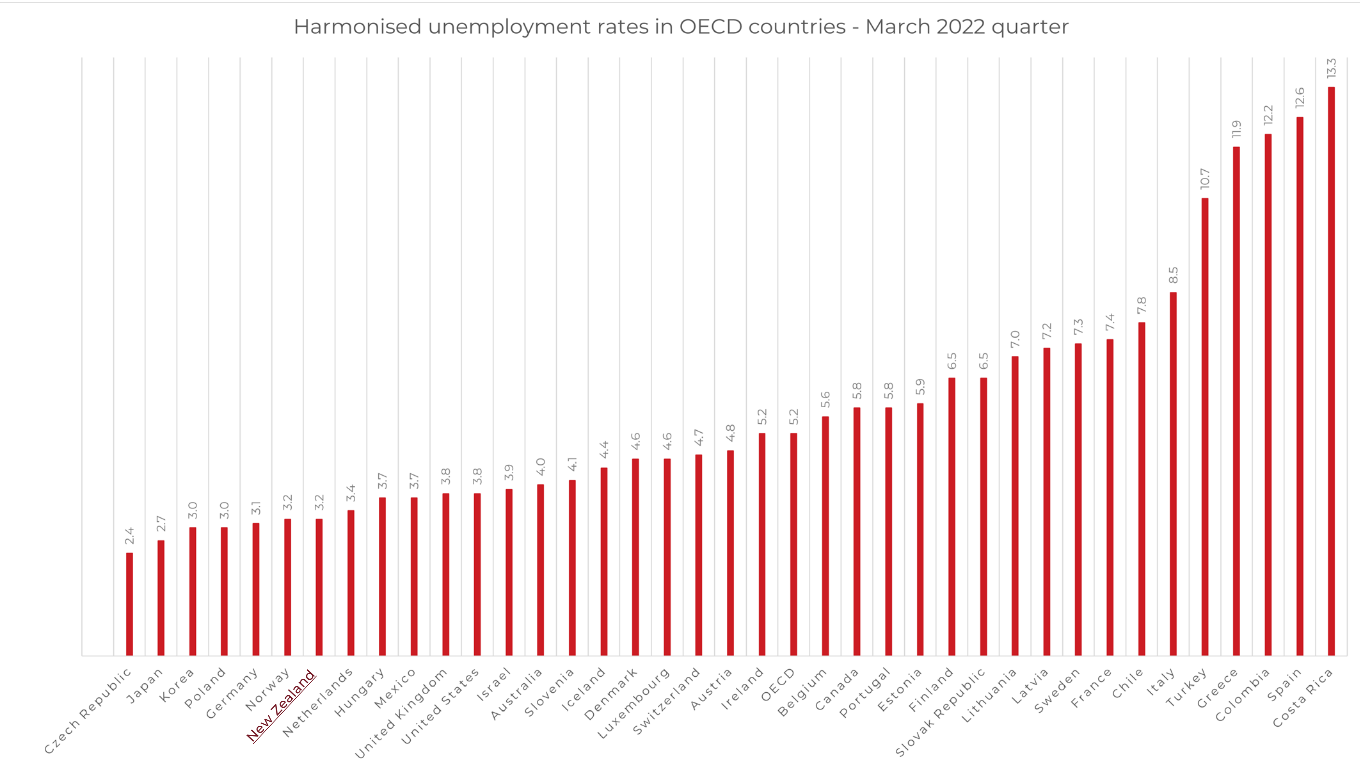


For the March 2022 quarter female unemployment is at 3.3%, while male unemployment is at 3.1% which is no change from the previous December 2021 quarter.

Women's unemployment rate traditionally tracks higher than the male rate, with the odd exception such as March 2021 when both male and female rates of unemployment were at 4.6%. The full effects of lock-downs on unemployment were felt in September 2020 when the unemployment rate was at 5.3% (F: 5.8% and M: 4.8%). Pre-Covid, unemployment was at 4.2% (F: 4.4% and M:4%).

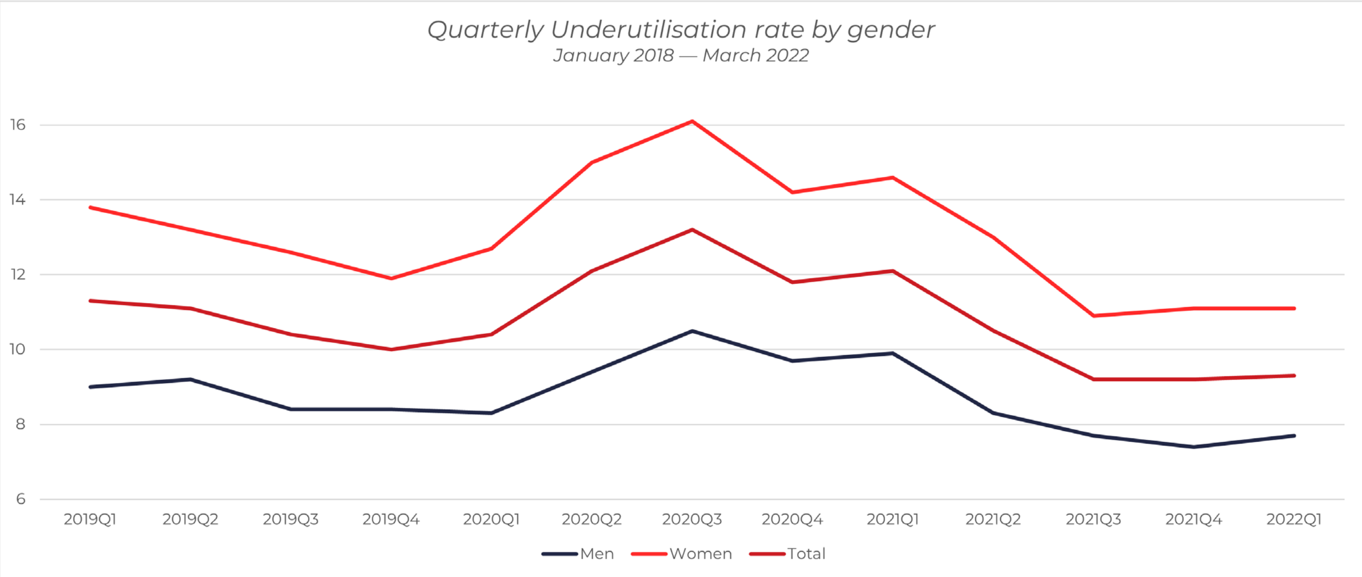


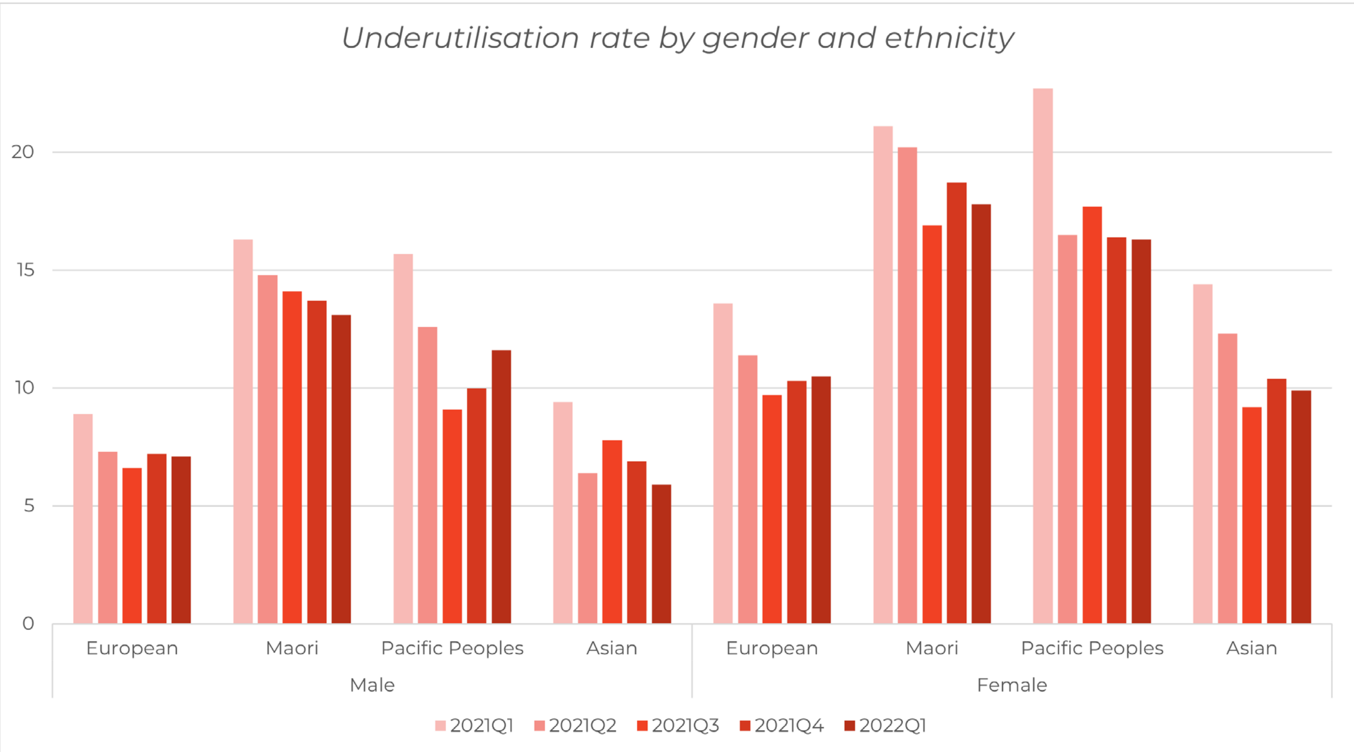
New Zealand's unemployment rate is currently the 6th-equal lowest in the OECD, tied with Norway on 3.2%, and after Germany (3.1%), Poland and Korea(3%), Japan (2.%) and the Czech Republic (2.4%).



Underutilisation

Despite a full labour market, underutilisation is still a problem, particularly for Maori, Pacific and female populations. The underutilisation rate for the March 2022 quarter is 9.3% (F: 11.1% and M:7.7%), an increase of 0.1% from the previous quarter and lower than pre-pandemic levels. In March 2020 the underutilisation rate was 10.4% (F: 12.7% and M:8.3%). The underutilisation rate measures employed workers who are available for and want additional hours of work than what they currently have.

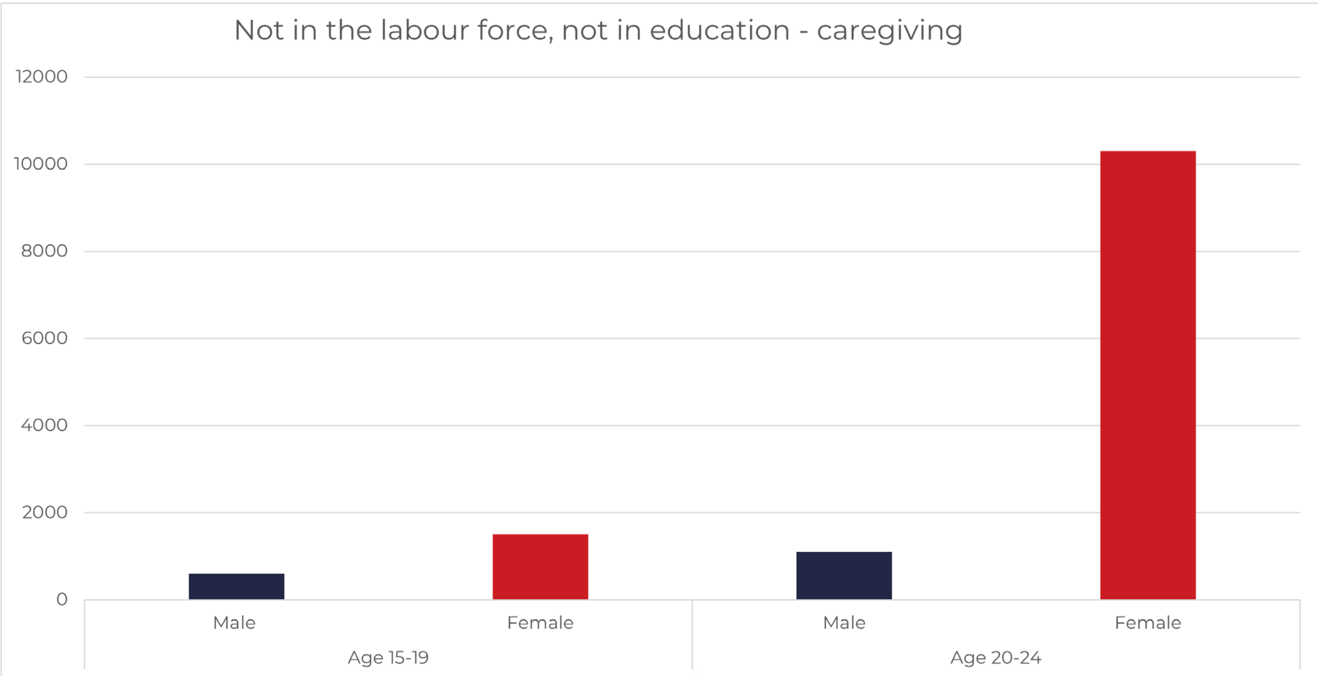




Youth employment

According to the household labour force survey released by StatsNZ for the March 2022 quarter, the seasonally adjusted rate of youth (age 15-24) not in employment, education or training (NEET) increased by 0.6% to 11.5% in comparison to the previous December 2021 quarter.

When broken down by gender the NEET rate was 11.7% for men (up from 10.4%) and 11.3% for women (down from 11.4%). The youth unemployment rate is relatively stable in comparison to last quarter, increasing slightly to 9.59%, up from 8.83% in December. The data also tells us that there are currently 1,500 women and around 600 men aged 15-19 years not in the labour force or education due to caregiving activities. For youth aged 20-24, there are around 10,300 women and 1,100 men not in the labour force or education due to caregiving activities



Job vacancies online — all vacancies index

MBIEs all vacancies index shows that the number of jobs advertised online for the March quarter was up from the previous December quarter by 6% and was up 18% from the same period last year.

Broken down by industry, the number of jobs advertised online increased in 8 out of 9 industries. in comparison to the December 2021 quarter the more significant increases were in:

- health care (up 13.6%)
- manufacturing (up 7.3%)
- hospitality (up 6.7%)
- education (6.2%)
- IT (-0.6%).

In comparison to the December 2021 quarter, the biggest increases in vacancies across occupation groups were in:

- machinery operators & drivers group (up 5.8%)
- community & personal services (up 5.2%)
- technicians and trades (4%).

In comparison to the December 2021 quarter, at a regional level jobs advertised online increased in all 10 regions, with the largest increases in:

- Bay of Plenty (up 8.7%)
- Canterbury (up 8%)
- Manawatū-Whanganui/Taranaki (5.8%).

Employment by industry

For the March 2022 quarter, in comparison to December 2021, the Household Labour Force Survey (HLFS) showed that total employment across all industries has decreased by around 10,100 workers. This decline was almost entirely female. While quarterly data can move around due to sampling issues, overall female employment declined by 10,600 workers while male employment increased by 500 workers.

However, as mentioned earlier, the national unemployment rate has remained unchanged since last quarter. This could be an indication of women removing themselves from the labour market rather than becoming unemployed. However we don't have enough information to draw a strong conclusion with any certainty. What we do know is the following:

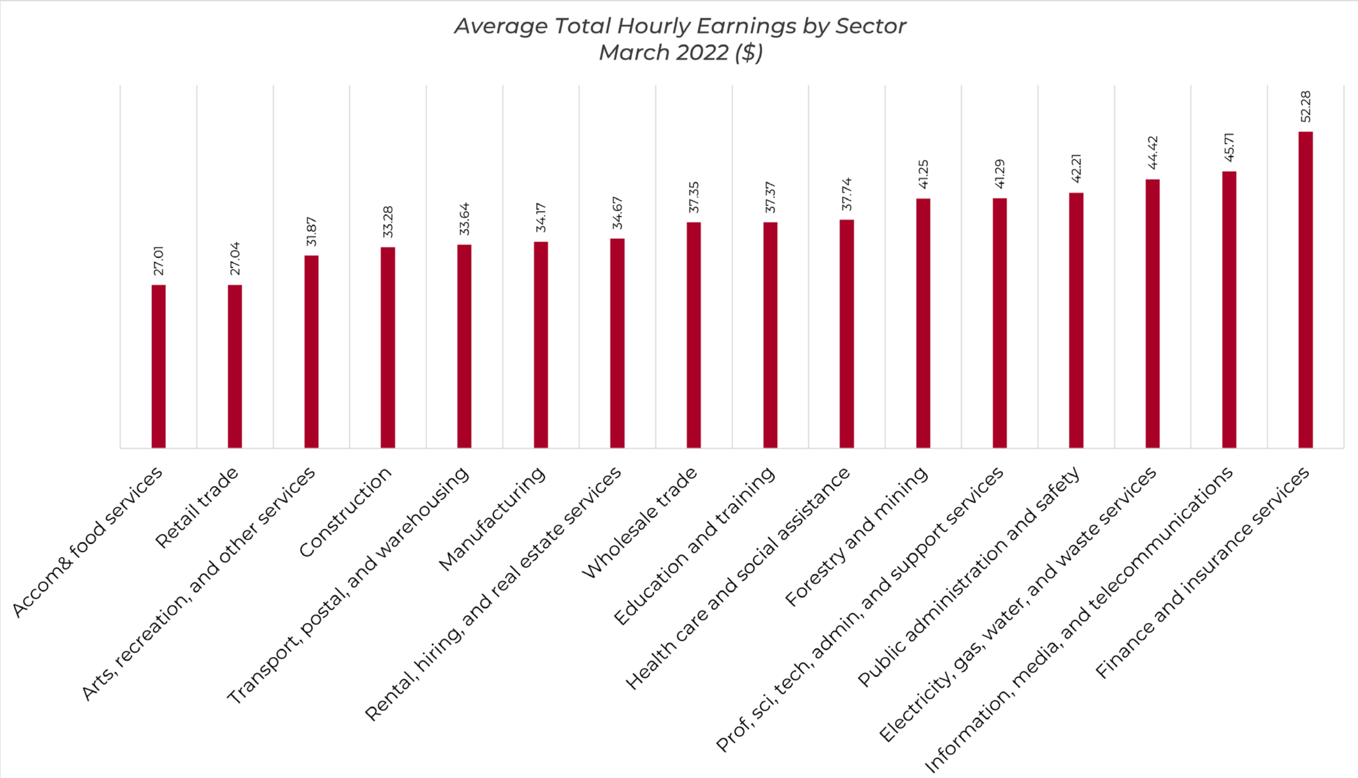
- The total number of people not in the labour force in March 2022 is 1,184,900, an increase of around 9,700 people; made up of 800 of these were men and 8,900 were women.
- The total labour force in March dropped by around 2,000 people, made up of an additional 3,200 men and a drop of 5,200 women.
- The number of employed people for March sits at around 2,829,900, a decline of 10,100 people. This decline is made up of an additional 500 male workers and a drop in female workers of 10,600.
- The number of unemployed people for March sits at around 100,700 which is an increase of 8,100 people, made up of 2,700 men and 5,400 women.
- The working-age population for March sits at around 4,115,500 workers, this is an increase of 7,600 people since December 2021. This is made up of around 3,900 men and 3,700 women.

The breakdown by industry can help provide more context to these numbers:

- Agriculture was down by 3% (5,400 workers)
- Arts, recreation, and other services was up by 7% (13,900 workers)
- Wholesale and trade was down 7% (8,000 workers)
- Rental and real estate services was down 4%, driven by a 2,400 decline in women workers and no change in the number of men employed.
- Education and training was down 10% (21,800), driven by a decline in 13,100 women and 8,700 men.
- Healthcare was down 1.2% (2,800 workers) - likely due to the change in covid restrictions.
- Transport postal and warehousing was up 5% or 4,700 male workers and 1,100 female workers.
- Professional, scientific, technical, administrative, and support services was up 1%, driven by a decline of 400 female workers and an increase of 2,700 male workers.
- Financial and insurance services was up 4%, made up of an increase in 3,700 female workers and a decline of 300 male workers.
- Information media and telecommunications was up 2%, driven by an increase in 1,000 male workers and a drop of 300 female workers.
- Construction was up 4% (10,000 workers, driven by an increase of 6,100 female workers).
- Manufacturing was up 6.5%, made up of an increase of 10,900 male workers and 4,700 female workers.

Earnings by sector

The graph below shows the average total hourly earnings by sector for the March 2022 quarter, in order from the lowest-paid to the highest. It shows that the female-dominated hospitality and retail sectors provided the lowest average hourly rates of $27.01 and $27.04 respectively, and that tech-heavy industries are among the higher paid, with information, media and telecommunications at $45.71 and finance and insurance services topping the list at $52.28.



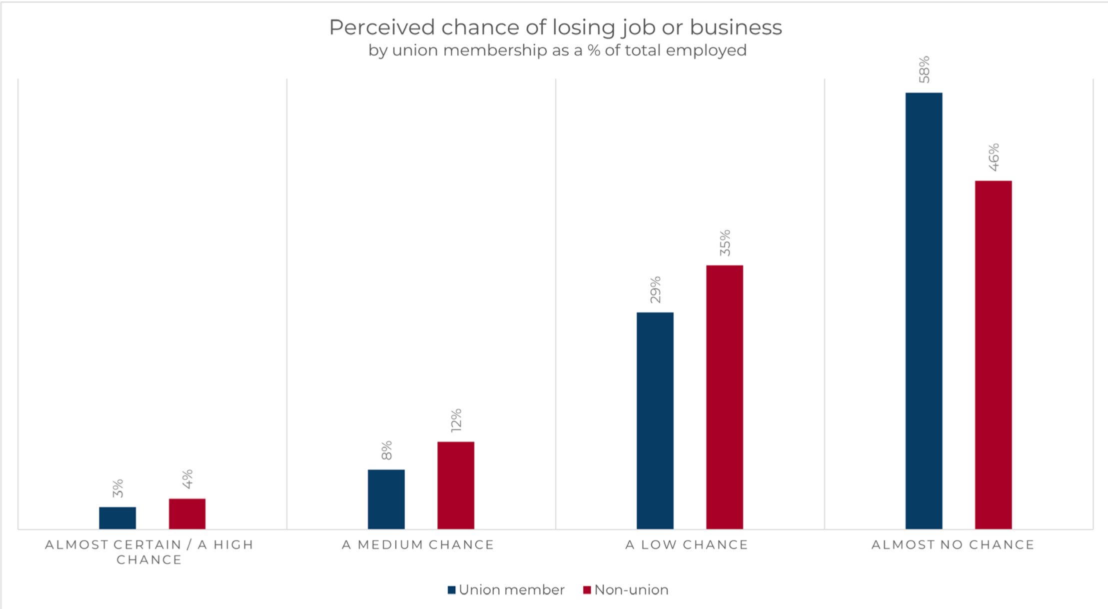
Union membership

Union membership for March 2022 accounts for 19% of the workforce at 444,200 workers. This is down from 453,100 workers in December 2021. However, this is still a marginal increase in the % of the total workforce by 0.3%, This drop in union membership appears to be mainly due to a decline in total paid employees of 12,500 workers from the previous quarter. However, union membership is still up 21,900 workers from this same time last year.

	Total Union Membership – All Ages (thousands)			
	Union member	Not union member	Don't know	Total paid employees
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
2022 Q1	444.2	1736.80	80.5	2263.70

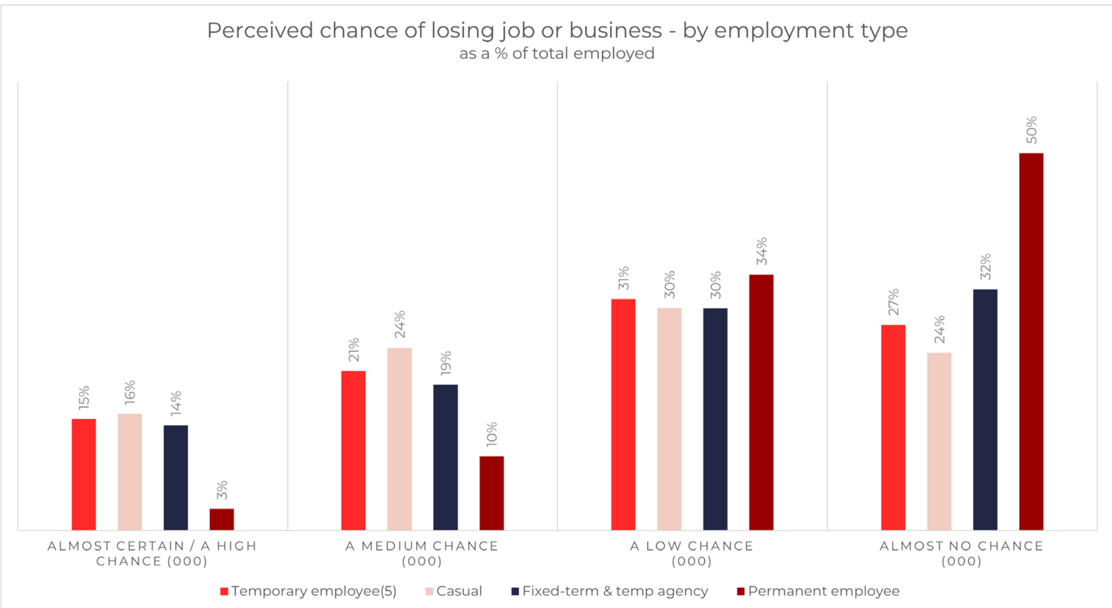
Job Security

The Household Labour Force Survey includes information on workers perceived job security. The most recent update for the March 22 quarter, shows that union members have much higher sense of job security than non-union members. 58% of union members believed they had almost no change of losing their job in the next 12 months compared to 46% of non-union members.



When looking at perception of job security by employment type, casual workers have a much lower sense of job security (chance of losing their job in the next 12 months or before it's intended end date). Casual, temporary and fixed-term workers say they have a 15%, 16% and 14% respectively 'almost certain/ high chance' of losing their job — a significant difference to the small 3% of permanent employees who feel the same. 50% of permanent workers feel they have almost no chance of losing their job. Meanwhile 27%, 24% and 32% of temporary, causal and permanent workers feel the same.

Since this data set began, in June 2020, perceived job security has increased from 35% of workers who felt their jobs were safe, to 47%. Conversely, the proportion of workers who think there is a high change of losing their job has declined from 7% in June 2020 to 4%.



Economic Forecasts

NZIER Consensus Forecast

This NZIER Forecast was released on 13 June 2022

Annual Percentage Change (March Year)	2021/22	2022/23	2023/24	2024/25
GDP	▲ 5.4	▼ 2.9	▼ 1.9	▼ 2.1
CPI	▲ 6.9	▲ 4.1	▲ 2.6	▲ 2.4
Private Sector average hourly wage	▲ 4.2	▲ 5.5	▲ 4.7	▲ 3.6
Employment	▼ 2.9	▲ 1.2	▼ 1.0	▼ 1.2
Unemployment rate (%of labour force)	▲ 3.3	▼ 3.2	N/C 3.6	▲ 4.0
arrows refer to direction of change from last survey				

On May 25, the Reserve Bank of New Zealand (RBNZ) once again increased the OCR to 2%, this 0.5 basis point increase followed a 0.5 basis point increase in April. There is projections of another 0.5 basis point increase in July.

The current expectation is that 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.

The RBNZ said in a statement "A larger and earlier increase in the OCR reduces the risk of inflation becoming persistent [...] Once aggregate supply and demand are more in balance, the OCR can then return to a lower, more neutral, level".

The Reserve Bank currently views an OCR of 2% as the neutral rate, where it is neither constraining nor stimulating economic activity.

Alongside this rapid fiscal tightening is growing concern of a looming recession which is being predicted for the first two quarters of 2023. Each OCR hike helps make a recession more likely. With this prediction on the horizon, the RBNZ might do well to hold a more neutral OCR rather than the 4% rate it's recently estimated to reach by June of 2023.

The RBNZ believes NZ can handle a sharp and steep increase in the OCR stating that "Unemployment is extremely low; household balance sheets are in good shape; people saved money over lockdown. So, there are still buffers there in terms of the balance sheet." That being said, back in October when the OCR was at a low 0.25%, ASB Bank stated that 40% of their customers have less than $1000 in cash, which is 60% more cash savings than pre-lockdown levels. ASB also said that about 39% were living payday to payday, and 49% were just getting by.

Kiwibank Chief Economist Jarrod Kerr says "With every rate rise the chance of a recession increases. They're [RBNZ] trying to engineer a soft landing, but as history suggests it's very difficult engineering a soft landing. On their own forecasts the Reserve Bank has the housing market falling 15%, which takes you back to the start of 2021. In terms of nominal levels [that's] a lot fairer level for house prices. But with that negative wealth effect, with the impact on confidence, you could easily slip into a recession in that world."

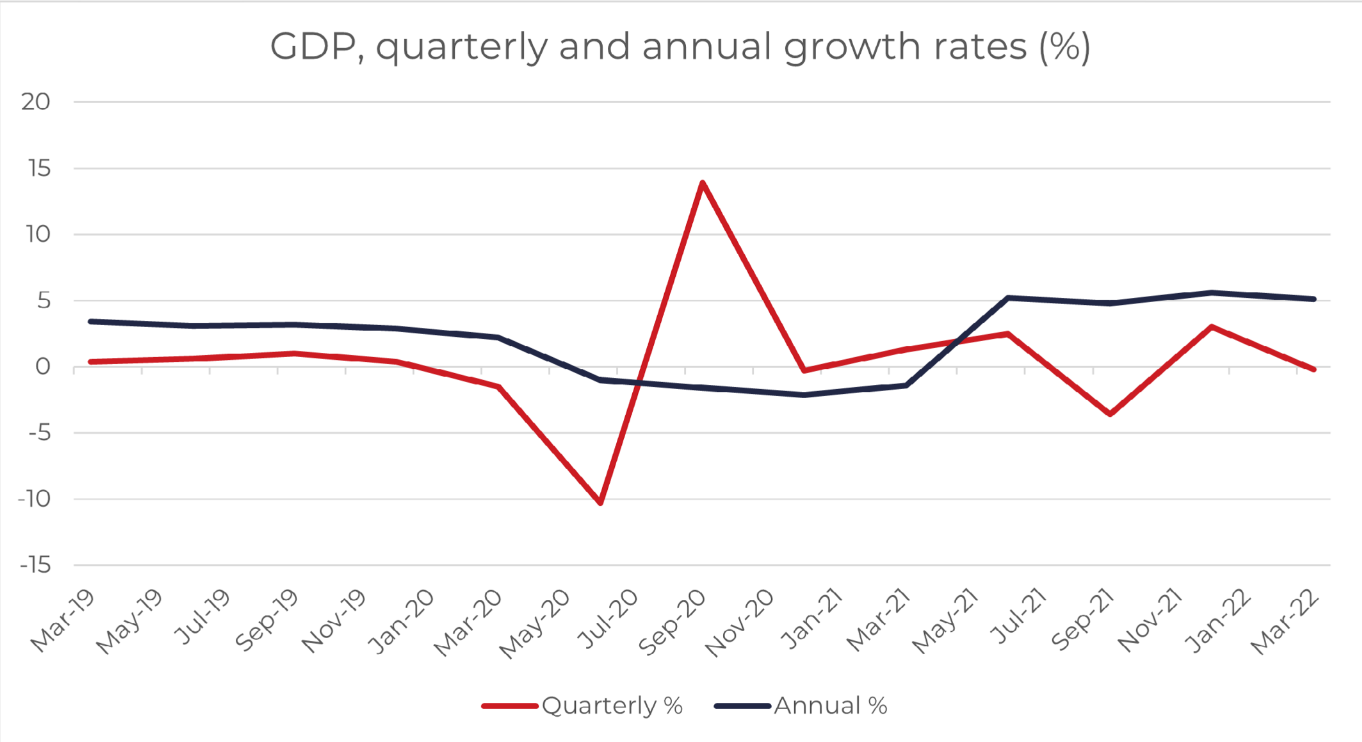
OCR predictions are subject to change, and if a recession does hit, alongside a dampening of house prices, it is likely that the OCR will begin to decline again rather than continuing on to hit 4%. Westpac said "the pace and extent of the fall in consumer confidence certainly raises the risks of a sharper slowdown in demand. Consistent with that, we continue to forecast a peak in the cash rate of 3.5%".

Gross domestic product

Annual GDP growth for the March quarter dropped 0.2% from the previous December quarter. December saw growth of 3% from the September quarter. Despite what you might have heard, this isn't a recession. Most economists agree that two consecutive quarters of negative growth are required before economic decline becomes a recession. On an annual per-capita basis, GDP was up 5.1% from March last year.

Last quarter growth was registered in 13 out of 16 sectors of the economy. This quarter, economic activity fell in primary industries by 1.2% and in goods-producing industries by 0.1 %. Service industries saw no change.

GDP was up in construction; wholesale; rental, hiring and real estate; public admin, safety and defense; education and training; healthcare and residential care; arts, recreation and other. While GDP declined in all other industries.



Inflation

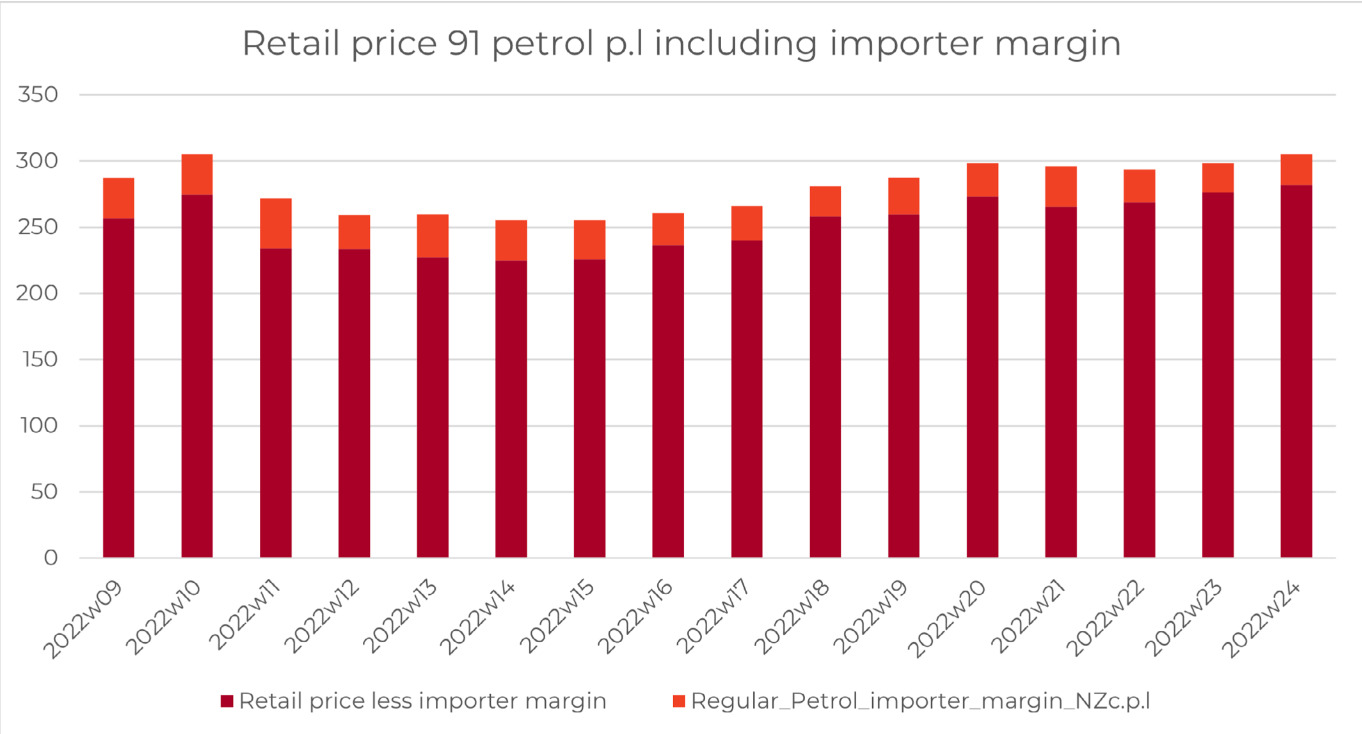
CPI and LCI percentage changes

The Labour Cost Index/annual wage inflation increased to 3% for the March 22 quarter — its highest level since March 2009. New data will be examined in the July bulletin.

CPI for March 2022 is 6.9%, up from 5.9% in December. A more detailed analysis of the March CPI and what this means for real wage growth, and the global context was provided in April's Bulletin.

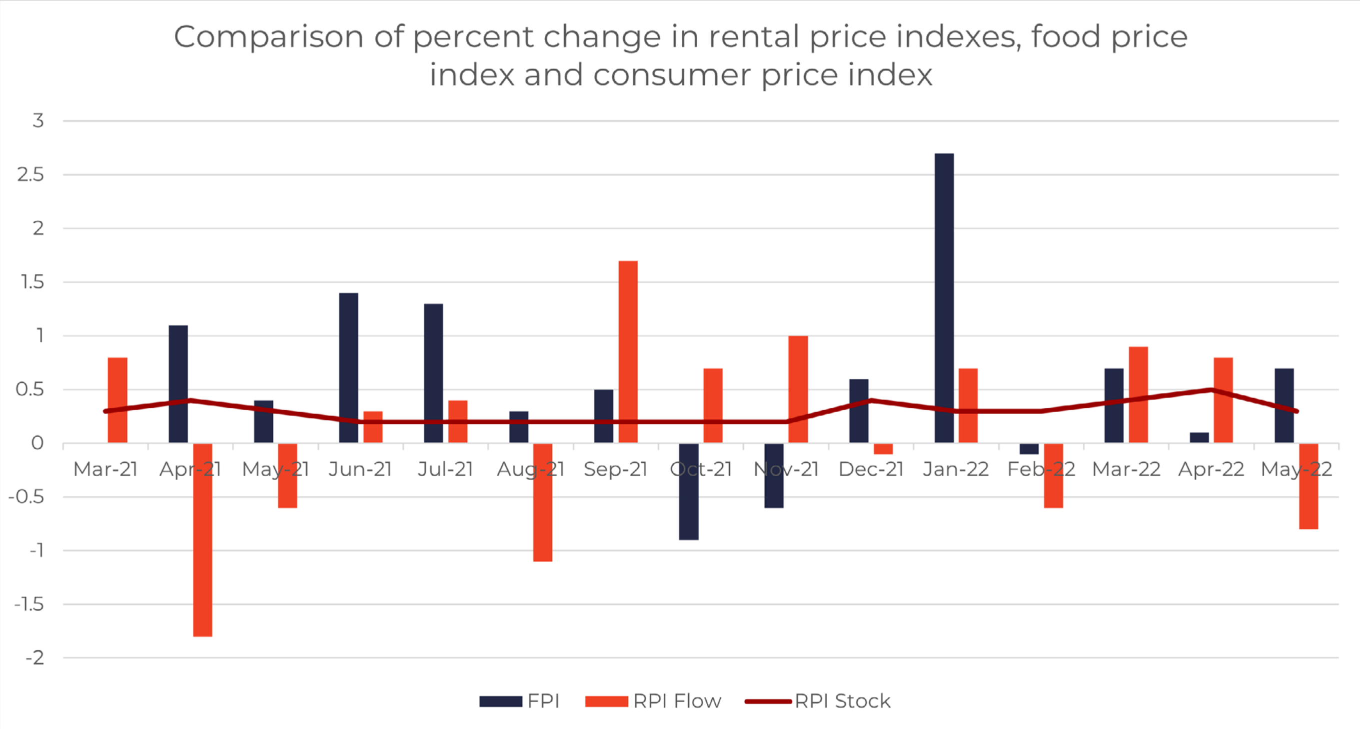
Petrol prices increase

MBIEs weekly fuel price monitoring has regular 91 octane petrol at $3.05 and premium 95 Octane at $3.23 for the week ending 17 June. Importer margins for the same week were $0.23 and 0.35 respectively. For both regular and premium petrol this is a downward trend since the beginning of March when importer margins were at 0.30 per litre.



Rent and food price index

Once again, and as expected, the rent price index (RPI) and the food price index (FPI) are running ahead of wages. While wage inflation was at a record high of 3%, food prices for the month of May in comparison to May 2021 increased by 6.8%, this follows an increase of 6.4% in April 2022 compared to April 2021. The March Economic Bulletin examined the relationship between the Minimum Wage and Rental Price Changes.



The 6.8% increase was a result of broad increases across the food categories. Grocery items (up 7.4% annually) were the largest contributor to the index, driven by increases to the price of dairy products particularity yoghurt, followed by butter,milk and cheese.

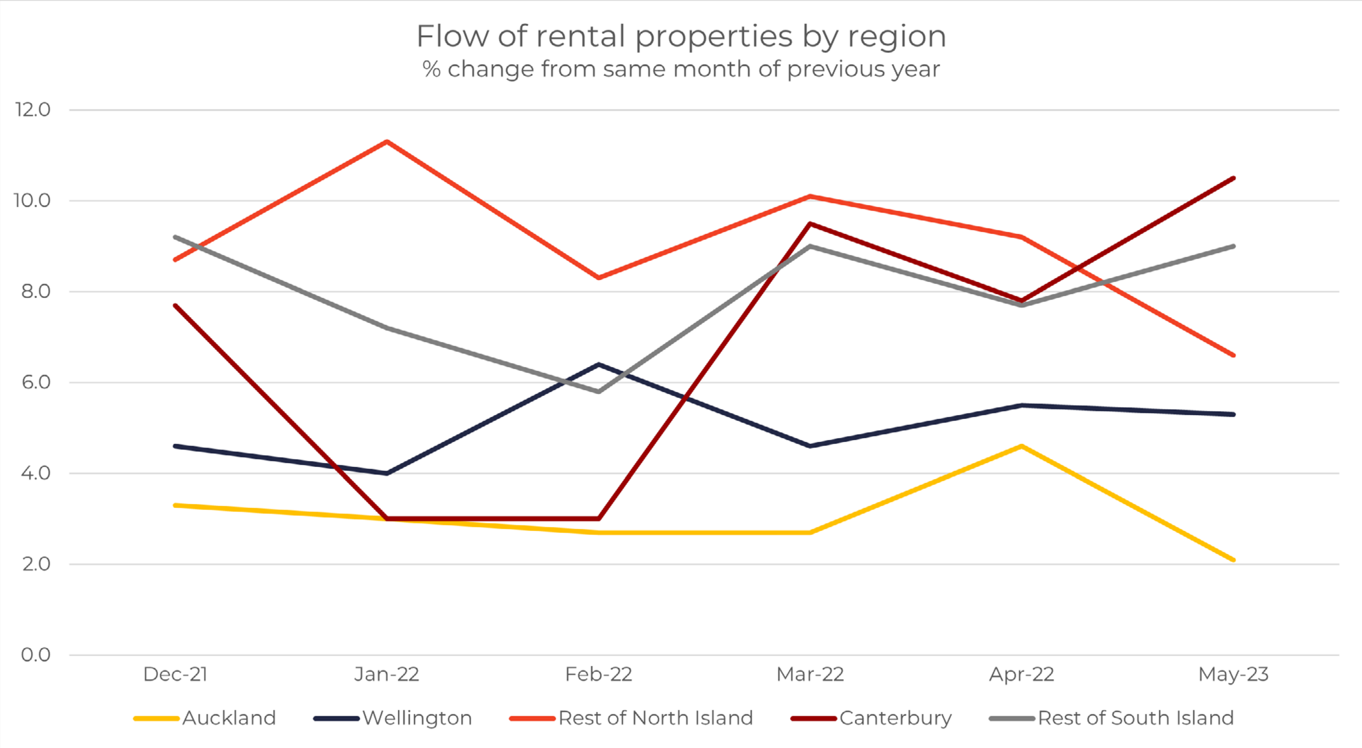
The weighted average price of a six-pack of yoghurt has increased from $5.60 to $6.40 since May 2021.

Food Price Index Monthly Change (seasonally adjusted)					
	Jan 22	**Feb 22**	**Mar 22**	**April 22**	**May 22**
Fruit and vegetables	▲6%	▲0.6%	▲0.5%	▼3.2%	▲0.3%
Meat, poultry, and fish	▲3.6%	▲0.1%	▲0.9%	▼0.4%	▼0.5%
Grocery food prices	▲0.7%	▼0.1%	▲0.8%	▲0.8%	▲1.2%
Non-alcoholic beverage prices	▲2.3%	▼0.3%	▲0.9%	▼0.8%	▲1.1%
Restaurant meals and ready-to-eat food	▲0.3%	▲0.3%	▲0.3%	▲1.4%	▲1.0%

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

- May 2022 there was an increase of 5.3%
- April 2022 there was an increase of 6.9%
- March 2022 there was an increase of 5.8%

The largest rental price increases where in Canterbury (10.5%), the rest of the South Island (9%) and the rest of the North Island (6.6%). The lowest increases were in Auckland (2.2%).



Economic Indicators

Consumer spending and confidence

The ANZ-Roy Morgan Consumer Confidence indicator for June for fell 1.8 points to 80.5, remaining relatively steady, close to March's record low of 77.9.

The proportion of people who believe it is a good time to buy a major household item, increased 9 points to -21, which follows -30 in May, -23 in April and -26 in March.

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.

The Westpac McDermott Miller Consumer Confidence Index for the June quarter has dropped 13.4 points to a record low of 78.7 since the survey began in 1988 - the long run average is 110.2. The number of people who believe it is a good time to buy a major household item also dropped 17.8 points to a record low of -24.8. The long run average is a positive 23.8.

Westpac reported in their survey that a significant number of households said their financial position has deteriorated in recent months, and many expect that it will continue to weaken over the coming year. Westpac acting chief economist Michael Gordon said "The combination of rising mortgage rates and increases in living costs has already taken a large bite out of disposable incomes [...] The pressure on household finances is weighing on spending appetites, and we're expecting a downturn in economic growth more generally over the coming months."

Bonds

10 year Bond Yields are 3.85 on 30 June. Future forecasts estimate NZ Government Bonds 10Y to trade at 4.09 percent by the end of this quarter. Looking forward, Trading Economics global macro models and analysts estimate it to trade at 4.42 in 12 months

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

Retail sales

StatsNZs retail trade survey for the March quarter, released in May, showed that while the total seasonally adjusted and accounting for price effects, volume of sales declined by 0.5%, in comparison to December 2021, the total value of sales increased by 0.5 percent ($133 million).

Without accounting for price effects and seasonal patterns, in actual terms, the value of total retail sales was $28.4 billion in the March 2022 quarter, up 8.0 percent ($2.1 billion) compared with the March 2021 quarter.

The main movements in sales volumes were:

- motor vehicle and parts retailing – down 4.0 percent
- hardware, building, and garden supplies – down 5.5 percent
- electrical and electronic goods retailing – up 2.7 percent
- non-store and commission-based retailing – down 10 percent.

Card spending

The seasonally adjusted total value of electronic card spending increased by 1.4% or $123 million in May 2022 in comparison to April 2022.

Retail card spending for May increased by 1.9% ($118 million). The non-retail (excluding services) category increased by 5.5% ($100 million) and the services category increased 4.9% ($16 million).

Overall, for May 2022, there were 152 million transactions made across all industries to a total value of $8.4billion, with an average value of $56 per transaction.

The overall increase is driven by increases in spending across categories.

- fuel, up $51 million (8.9 percent)
- apparel, up $22 million (6.8 percent)
- consumables, up $7 million (0.3 percent)
- durables, up $4 million (0.2 percent)
- motor vehicles, up $1 million (0.6 percent).
- hospitality declined by $58 million (5.0 percent) between May 2021 and May 2022 (not seasonally adjusted due to Covid-19).

Net international liabilities — March quarter

- The country's Net international liabilities for March 2022, released in June, dropped to $160.2 billion, from $162.4 billion at 31 December 2021.
- Net international liabilities and net external debt for the March quarter were equivalent to 45% and 47.1% of GDP respectively.
- New Zealand's seasonally adjusted current account deficit was $8.5 billion.
- The current account deficit for the year ended 31 March 2022 widened to $23.3 billion (6.5 percent of GDP) from the $3.2 billion deficit for the March 2021 year (2.5 percent of GDP).
- New Zealand's current account balance was a seasonally adjusted $8.5 billion deficit, $1.9 billion wider than the December 2021 quarter deficit.
- The widening of the seasonally adjusted current account deficit was the result of a $701 million widening of the goods deficit and $1.1 billion widening of the services deficit.
- The annual current account deficit was $23.3 billion in the year ended 31 March 2022 (6.5 percent of GDP), $15.1 billion wider than the year ended 31 March 2021.
- Seasonally adjusted goods deficit increased $701 million, to $2.9 billion.
- Goods imports increased $871 million, due to increases in intermediate goods and consumption goods.
- Goods exports increased $171 million, due to increases in the prices of dairy products.
- The seasonally adjusted services deficit grew $1.1 billion, with exports down $831 million and imports up $238 million.

International trade-in services

Total service exports for March 2022 increased 12% ($376million) with transportation down from $3B to $1.4B and travel was down from $13.7B to $4.5B.

Total services imports for March 2022 increased 35% ($1.4billion), up from March 2021.

Transportation imports increased by 82% ($673 million) to $1.5 billion.

Travel exports dropped by only a small 3.2%, while travel imports increased 32%.

While imports and exports have increased since March of last year, they are both still down on pre-pandemic levels (March 2020) by 59% and 0.1% respectively.

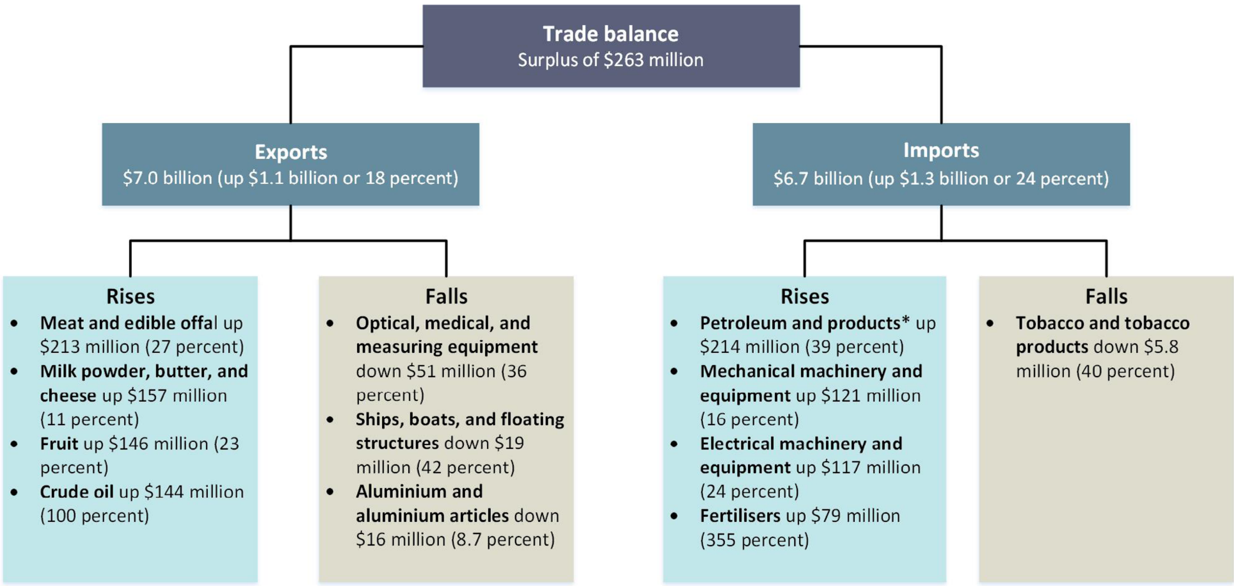
The largest areas of imported services came from transportation (27.9%) and the largest areas of exported services came from travel (30.4%).

The overseas merchandise trade statistics

For [May 2022](), the monthly trade balance surplus of $263M, made up of a goods exports increase of $1.1B (18%) to $7B and a goods imports increase of $1.3B (24%) to $6.7B.

Goods exports and imports

May 2022 month compared with May 2021 month



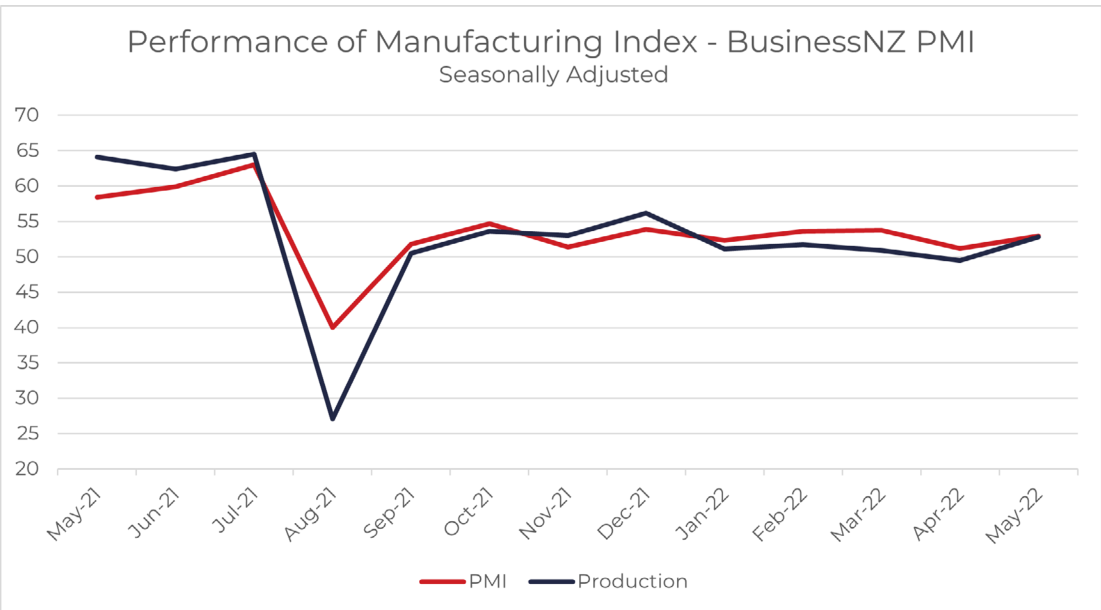
* Imports of crude oil and other petroleum products often fluctuate from month to month.

Source: Stats NZ

Other economic indexes

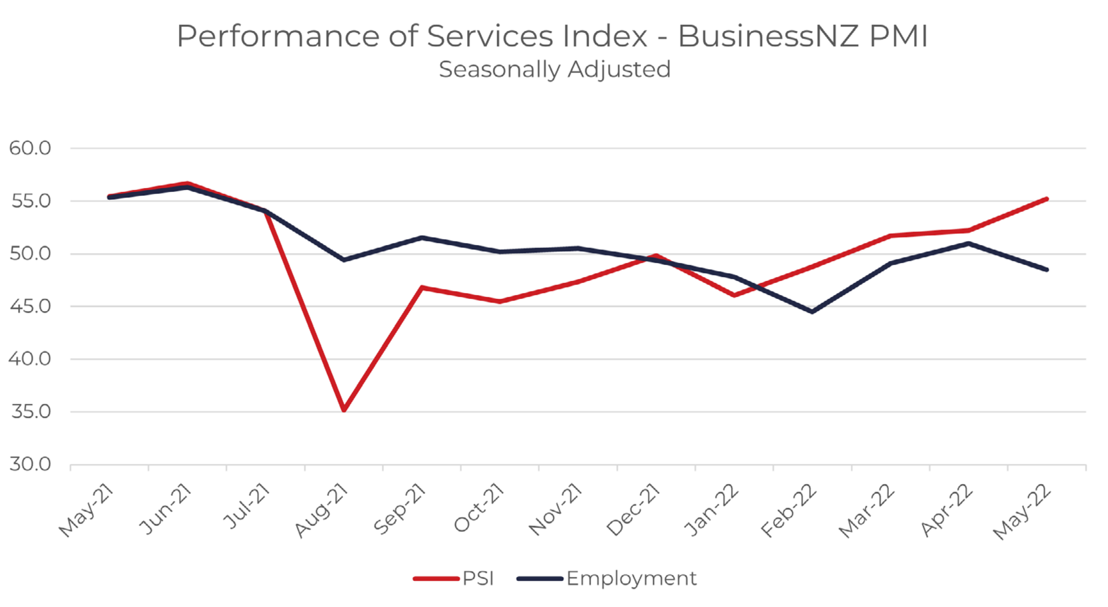
[The Performance of Manufacturing Index (PMI)]() for May 2022 increased 1.7 to 52.9, which indicates the sector is expanding, however 52.8 is still below the long-term average of 53.1 for the survey. The employment sub-index was 52.0 up from 49.6 last month.

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



The Performance of Services Index (PSI) for May 2022 was up 3 points to 55.2 showing that the service sector is once more expanding and 55.2 is above the long-term average of 53.6 for the survey. This is the third consecutive month that the sector has been expanding, following 7 months of contracting.

February's employment sub-index of 45 was at its lowest point since May 2020. For May 2022, the employment sub-index at 48.5 went back into contraction.



Real estate

According to Real Estate Institute of NZ (REINZ), the median price for a residential property across the country for May 2022, has dropped to $840, 000, and while this is a decline from last month of 1.6%, it is still up 2.4% from May 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 the median days to sell for May at 43 days, which is 14 days longer than December's 29 days and 1 day longer than March 2022.

Median house price year-on-year

- **National:** $840,000 - up from $820,000, +4.2% year-on-year
- **New Zealand Ex Auckland:** $730,000 - up from $678,500, +7.6% year-on-year
- **Auckland:** $1,125,000 - down from $1,150,000, -2.2% year-on-year
- **Wellington:** $895,200 - up from $885,000, +1.2% year-on-year

Median house price May/April

- **National:** $840,000 - down from $875,000, -4% since last month
- **NZ excluding Auckland:** $730,000 - down from $755,000, -3.3% since last month
- **Auckland:** $1,125,000 - down from $1,171,000, -3.9% since last month
- **Wellington:** $895,200 - down from $915,000, -3.7% since last month