NZCTU
Te Kauae Kaimahi

Monthly Economic Bulletin

October 2022: Fair Pay Agreements

NEW ZEALAND COUNCIL OF TRADE UNIONS
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Introduction

Welcome to the November 2022 EconoLex. In this edition, we examine the proposals for Fair Pay Agreements which passed their third reading in the house – meaning that they will become available to workforces very soon. We believe that they will make a massive difference to workers and workplaces, and we examine some of the evidence that supports their implementation here in New Zealand.

We also take another look at a couple of areas of our consultation document 'Building a Better Future for Aotearoa'. We look at the proposals around our need for decent work, and on building the infrastructure and housing that we need. The consultation is currently open, and we would like everyone to have a look and comment at www.buildingabetterfuture.org.nz.

Finally, this EconoLex looks at the latest economic data to try and tell us a picture of what is really going on in the economy right now. Unemployment is very low, more people are in work than ever before, wages are rising faster than inflation, the Crown Accounts are in much better shape than expected, and there is strong GDP growth. If this is an economic crisis it's a very strange one.

We always welcome hearing from you, and hearing what you would like us to analyse in future. If you have any questions, thoughts, or comments please do let us know.

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Fair Pay Agreements

Mark the 26th of October as a red-letter day in your calendar. On that day Fair Pay Agreements (FPAs) passed their third reading in Parliament, clearing the last hurdle before they become law. FPAs are a landmark reform, changing the way in which workplace relations will be delivered. FPAs will start to undo some of the damage that the 1991 Employment Contracts Act started – a point noted by the Deputy Prime Minister when he said to the House "The genesis of this bill, this great piece of legislation, comes 30 years ago".

What are Fair Pay Agreements?

Fair Pay Agreements are simply a mechanism through which minimum terms and conditions can be set across an industry or occupation. FPAs don't remove flexibility for workers. Employees will still negotiate their employment agreement with their employer. FPAs simply create a floor for issues such as pay beneath which no one can fall. This helps to stop exploitation. Flexibility for too many workers in New Zealand means flexibility for the company, not flexibility for workers or their families.

These agreements must cover issues such as pay (including overtime), hours, leave, and training and development. They can also include health and safety issues, flexible working, and redundancy. Once an agreement has been reached by the bargaining sides, it must be agreed upon by more than 50% of the vote from both employers and employees. If that process fails twice then they will be set by the Employment Relations Authority on advice from the parties.

Workers' pay won't be limited by an FPA. They don't force you to be paid the same as your colleagues – again, all they do is create a commonly understood minimum. They won't stop you from getting a pay rise because you worked hard or put in extra hours. Nor would the Trade Union movement want that either. Not that you need to be a Trade Union member – nothing in the FPA Bill requires workers to join a Union or to get a benefit from joining.

Unions that are bargaining for an FPA will now have a right to access workplaces if the primary purpose of the access is to discuss an FPA. Unions will also be provided with the contact details of all workers who would potentially be under the coverage of an FPA. Once an FPA has been agreed it is written into law – meaning that failing to comply with it is an offence in all senses of the word.

Why do we need FPAs?

Put simply, the current system doesn't work for too many workers. In many sectors, the power imbalance between workers and management is such that pay and conditions never improve. Competition in sectors with very similar products or services (public transport for example) pushes some firms to attempt to gain an advantage by driving down labour costs. This increases profit but does nothing for the workforce, nor for the wider wellbeing of consumers. Where there is a wage floor in a sector – as is proposed by the Bill, that competition model ends. Instead, firms compete on product, service, and value. Everyone except bad employers wins on this basis. It's the "race to the bottom" that harms workers and harms our economy.

Its not just the CTU or unions that support this approach. The OECD examined how bargaining systems around the world contributed to labour markets in 2019. They said "Bargaining systems characterised by a high degree of wage co-ordination across bargaining units are associated with higher employment and lower unemployment for all workers". FPAs will help deliver this, indeed

Australia has for the past 40 years had national awards that cover the overwhelming majority of the workforce. Between 2004 and 2021 the median hourly wage for an Australian roughly doubled[1] – from A$18.80 to A$36. Across the same timeframe in New Zealand the increase[2] was 78%. Australian workers also work fewer hours than New Zealanders – equivalent to 7 fewer days at work each year.

By having a common floor for terms and conditions across an industry or occupation, we also tackle some of the most persistent problems that we have in our labour market. The pay equity issues will be helped with the extra transparency that FPAs bring. Long hours of work will be more tightly controlled and properly renumerated. New Zealanders work some of the longest hours in the developed world– three weeks longer than the OECD average.

But this pattern is not just bad for workers – the ILO measure of the output per worker shows New Zealand consistently behind Australia over the period between 2010 and 2020[3]. R&D expenditure as a percentage of GDP has been consistently higher in Australia[4]. Our economy doesn't just lead to poorer outcomes in terms of innovation. Our fixed capital formation as a percentage of GDP – the plant and machinery that drives growth – was lower every year[5] than Australia between 1991 and 2019.

Finally, our current employment relations system has helped to widen the gap between workers and the owners of the economy. Ever since the establishment of the current employment relations system productivity has consistently grown faster than wages. FPAs are a chance to stop the ever-widening gap.

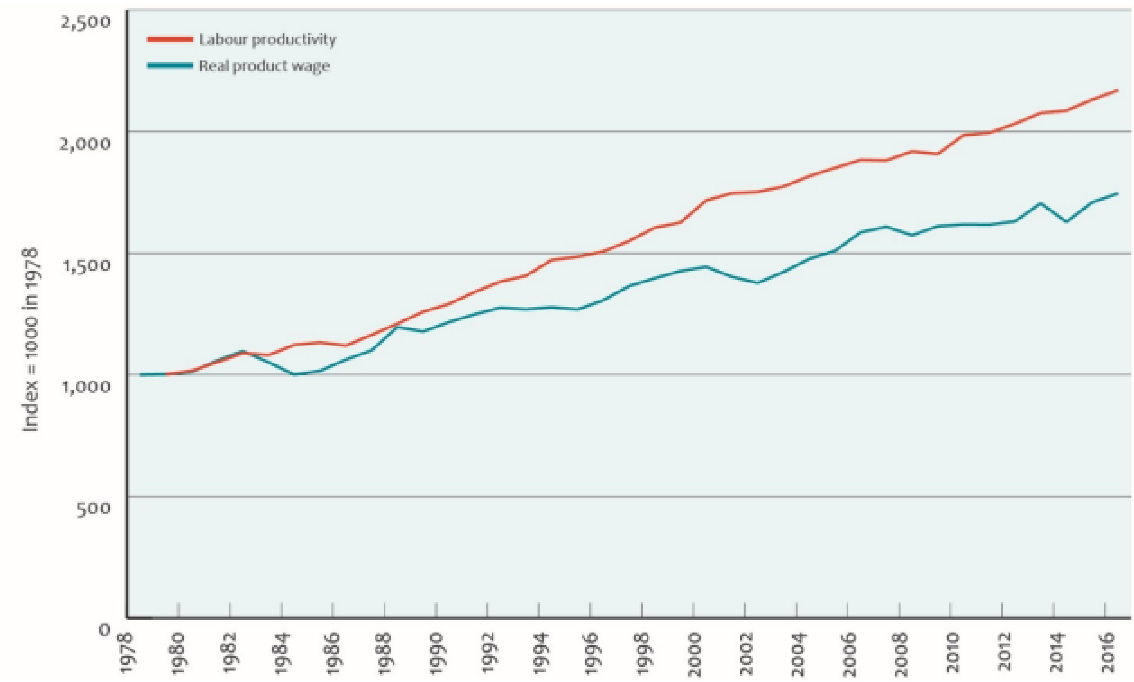


Figure 2: Labour productivity and the real product wage (1978–2016)

1 https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/employee-earnings/aug-2021#data-download
2 Stats NZ Data – Access from NZ.Stat
3 https://ilostat.ilo.org/topics/labour-productivity/
4 https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm
5 https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS?end=2019&locations=AU-NZ&start=1983

Michael Wood concluded his contribution to the debate on FPAs by saying that FPA's were about "lifting our sights a little bit to value work, and we cannot say in this House that we value work if we do not properly value the contribution that people make through fair pay, through decent conditions, and through a little bit of stability in their lives...Fundamentally, it is about once again forming a social contract in this country where working people have a voice, where working people receive fair dues for the contribution that they make"

We couldn't say it better ourselves.

Building a Better Future

Creating an Economic Development Strategy Together for Aotearoa

In our last Bulletin, we introduced our consultation report on an Alternative Economic Strategy for Aotearoa, New Zealand. This bulletin, we go into further detail on two of our key 'mission' areas - Decent Work and adequate housing and infrastructure needs.

Recently, the New Zealand Human Rights commission re-emphasised its position that our housing crisis is a Human Rights and have launched a housing inquiry calling for New Zealanders to share their experiences. The latest Trade Me Rent Price Index puts mean national rents at a high of $575 per week. That's 81% of a minimum wage worker's take-home pay.

Last week, Unilever released the findings of its investigation into a 4-day workweek. Unilever was so impressed with the results it has chosen to continue its New Zealand trial and extend it to Australia. This is another example of the growing evidence base for the effectiveness of a 4-day week in lifting productivity and having wellbeing benefits for workers. This one element of a better work life balance that the CTU wants to see in New Zealand.

Our alternative economic strategy is developed around a mission approach. We have chosen to frame our aspirations in terms of 'missions' as they provide both a goal and a direction and allow for quick means of understanding whether a policy is achieving its overall goal.

The idea of 'economic missions' is based on the work of Italian Economist Mariana Mazzucato. Her book, Mission Economy, A Moonshot Guide to Changing Capitalism, develops a Missions based approached that says if we can agree on a mission we can all work together to tackle that mission. The main example she gives is former USA President John F Kennedy and the moon landing where the government and the country all got behind a goal to put a man on the moon in 10 years – and the public and private sector got behind that mission. In working towards that mission there were huge spill over benefits in terms of research and development and growth in the economy.

Decent Work

The CTUs Alternative Economic Strategy for New Zealand, *Building a Better Future* proposes the establishment of a new Decent Work Act to replace the Employment Relations Act. The new Act will increase the bargaining power of workers and better recognise unions.

31 years after the Employment Contracts Act (2000) was introduced, and three decades on from the

state sectors reforms of the late 80s, workers are still paying the price. The impact of these reforms has meant that the social contract we live by – that if you get a job and work a 40-hour week you will be able to provide for yourself and your family no longer holds.

Recent data tells us that 40% of the 125,000 New Zealand children living in material poverty, after housing costs have a parent in full-time work. Parents in New Zealand are working full-time jobs and yet their children are missing out on basic items like shoes, meals, and heating.

This is due to a combination of benefit cuts, inadequate wages and a lack of affordable, adequate housing. The status quo is not working, and it's time we built a better future.

Adequate housing and infrastructure needs

The Alternative Economic Strategy also proposes the establishment of a Ministry of Green Works to address our housing crisis and infrastructure deficit. The original Ministry of Works and Development, formerly the Department of Public Works, was first established in 1876 and subsequently disestablished and privatised in 1988 as part of the central government reforms of the fourth Labour Government under Finance Minister Sir Roger Douglas. In its hay-day, the Ministry of Works was responsible for the design and construction of most of the country's core infrastructure including electricity (power grids, dams), hospitals, schools, wharves, rail, motorways, state highways, and Wellington's Mt Victoria Tunnel and airport. Its operations were also a major source of employment.

After the last two years of COVID-19, we've reached a turning point, making now the perfect time to look ahead rather than return to a pre-pandemic normal. The current state of the economy, and normal, is characterized by growing wealth inequality as a result of decades of underinvestment in social and physical infrastructure.

The high levels of debt that characterised the GFC were intertwined with the fact that real wages were not rising. Since then, very little has changed. For much too long, rent price increases have outstripped wage growth. Since October 2009, weekly take-home pay for an average worker has increased 36%, while mean rents have increased 90%.

The latest Trade Me Rent Price Index puts mean national rents at a high of $575 per week. That's 81% of a minimum wage worker's take-home pay. While many are working harder than ever, they find themselves standing still.

At the end of last year, a minimum wage earner on $20 per hour would need to put in an additional 6 hours labour, almost a full day's extra work, just to cover rent for the same property compared to 2009.

Average wage earners aren't immune to this spiraling cost of rent either. Today, an average wage earner on $36.50 per hour would also need to work an additional 6 hours labour to cover median rent – that's a 40% increase in the amount of labour required to make rent payments on the same house today in comparison to 2009. Wages simply are not keeping up with the cost of housing - a basic human right. While renters are struggling, landlords are cashing in. $575 of rent, represents 33 hours of labour to a minimum wage earner, and 20 hours labour to an average worker, but 0 hours of passive income to the landlord who is also profiting from untaxed capital gains. House prices *rose 30.62% between August 2020 – 2021 alone*. So while some people are doing very well as a result, others are struggling and falling further through the cracks.

Where we are is due to a series of choices. However, we can choose a better way, one where working people are rewarded for a 40-hour week with a liveable wage and the dignity of being able to provide for their families.

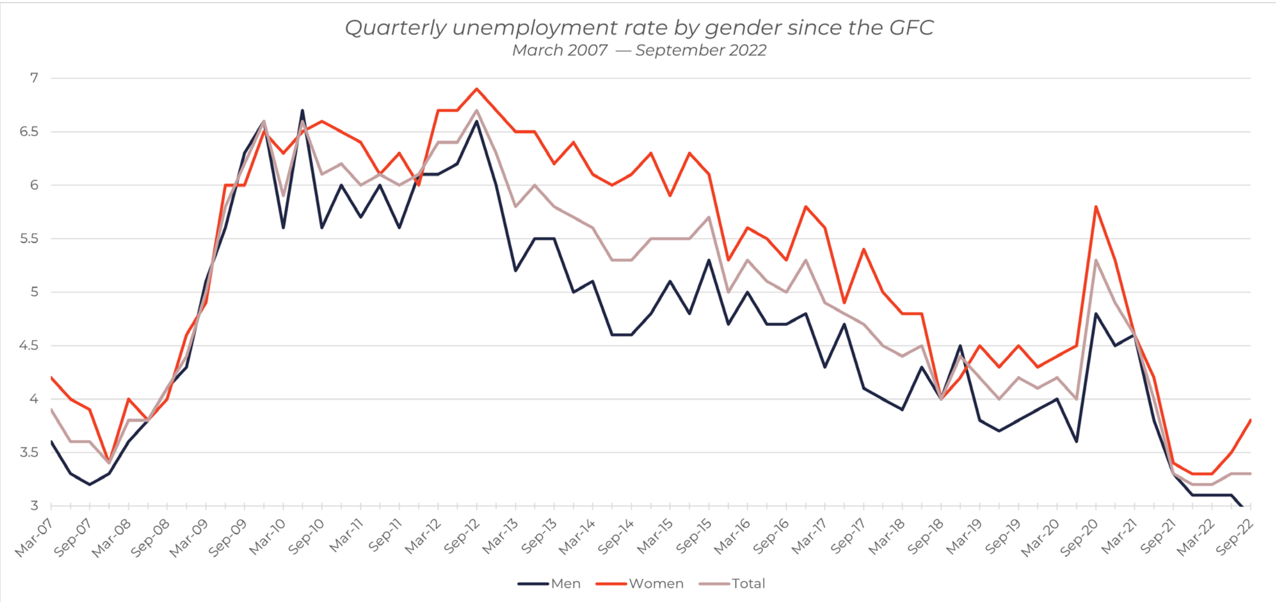
Currently open for consultation is the NZCTUs Alternative Economic Strategy which seeks to address these pressing issues.

Labour Market Data

Unemployment remains low and stable

This week, Statistics NZ released it's labour market statistics for the September quarter. The official unemployment rate remains unchanged at 3.3%. The seasonally adjusted number of unemployed increased by a net 1,000 people to 97, 000, made up of 4,000 more unemployed women less 3,000 fewer unemployed men.

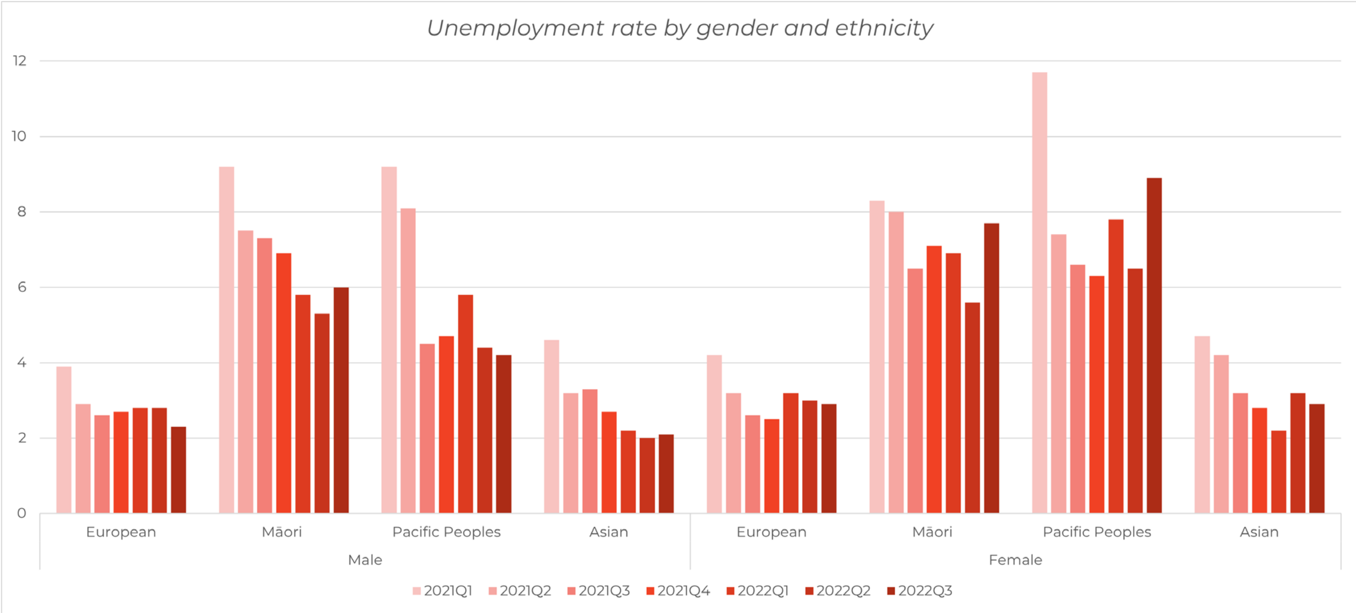
This is increase of 3,000 people since the March quarter when unemployment was at it lowest (3.2%) since the Household Labour Force Survey (HLFS) began in 1986.



However, while the number of unemployed increased by 1,000 people for this quarter, the employment rate increased from 68.5% last quarter to 69.3%, representing an additional 33,000 people over the age of 15 who were in some form of paid work, including part-time and casual.

For the September 2022 quarter, female unemployment is at 3.8%, up from 3.6% last quarter, while male unemployment has dropped to 2.9% from 3.1%.

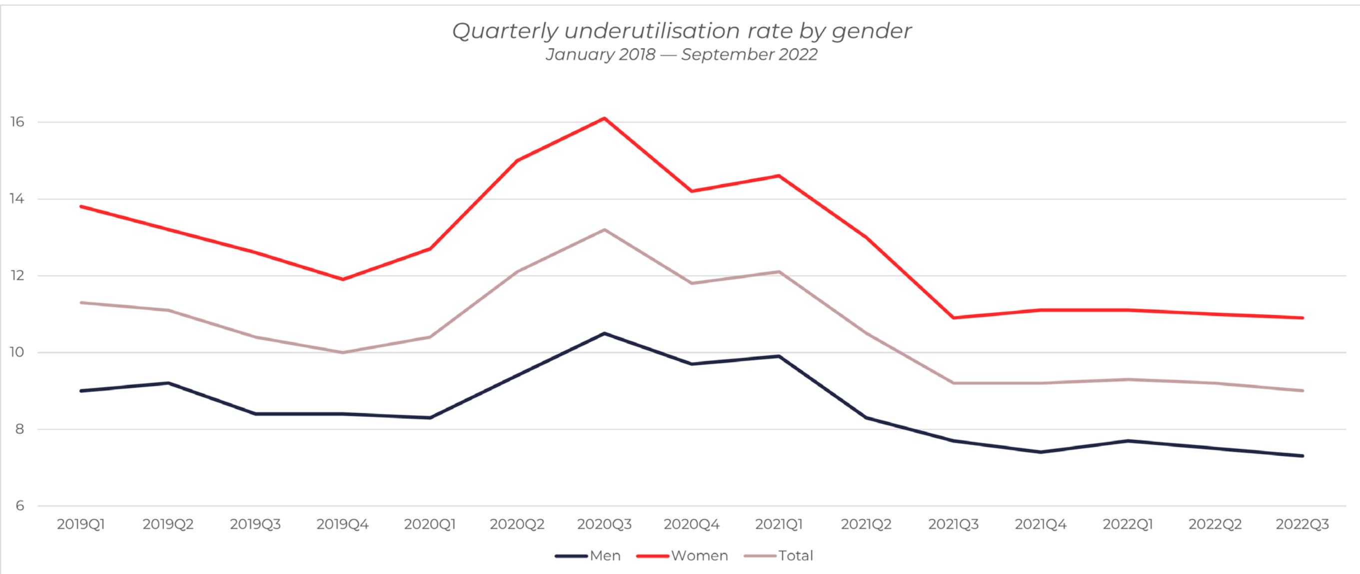
For Pakeha women, unemployment has declined marginally from 3% to 2.9%. But for Māori, unemployment increased this quarter. The unemployment rate for Māori men increased from 5.3% last quarter to 6% this quarter. The rate for Māori women increased from 5.6% last quarter to 7.7%.



For Pacific People, the male unemployment rate has declined from 4.4% last quarter down to 4.2%. However, for Pacific women unemployment has increased significantly from 6.5% to 8.9% - highlighting a significant gender and ethnic disparity.

Underutilisation

The underutilisation rate for the September 2022 quarter is 9% (F: 10.9% and M: 7.3%), down from 9.2% last quarter. This represents 273,000 people, (down 4,000; F: 1,000 and M: 1,000), which is still larger than the population of Wellington City. The underutilisation rate measures employed workers who are available for and wanting additional hours of work than what they currently have and is a broader measure of untapped potential in the labour market's capacity.

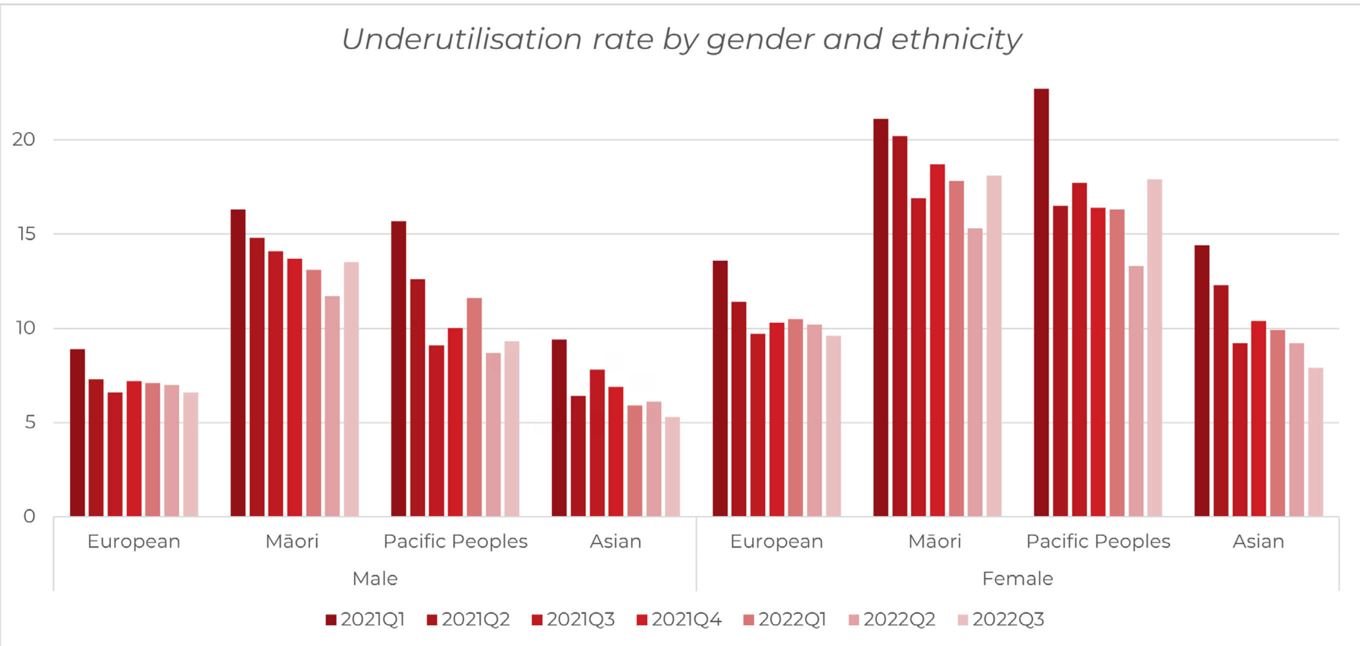


The underutilisation rate (using data from StatsNZ's Household Labour Force Survey) provides a broader measure of untapped potential in the labour market. It includes:

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

Again, as we saw with unemployment across ethnic groups, the pattern repeats with underutilisation where Maori and Pacific are disproportionately underutilized in the labour force. While Underutilisation dropped for Pakeha and Asian men and women it has increased for Maori and Pacific men and women. For Maori men, underutilisation has increased to 13.5% from 11.7% and Pacific men it's increased to 9.3% from 8.7%. For Maori women, it's increased to 18.1% from 15.3% and for Pacific women it's increased to 17.9% up from 13.3%.

This information is important to consider when we hear calls from people that unemployment should increase in order to dampen inflation, that the people who would be disproportionately impacted in that decision would be Maori and Pacific. What they're really asking is for some people to take one for the team and live in poverty in order for those in work to have cheaper groceries and petrol.



Youth employment

According to the [household labour force survey,](#) released by StatsNZ for the September 2022 quarter, the proportion of young people between 15-24 years old not in education, employment, or training (NEET) dropped to 11.5%, down form 12.2% last quarter.

When broken down by gender the NEET rate was 10.8% for men (down from 12.7%) and 12.2% for women (up from 11.4%).

In comparison to September last year, the number of jobless youth (which includes those not it the labour force) has dropped by 21, 400 young people. The number of filled jobs by young people (15-24) has increased by 24,457 since September last year.

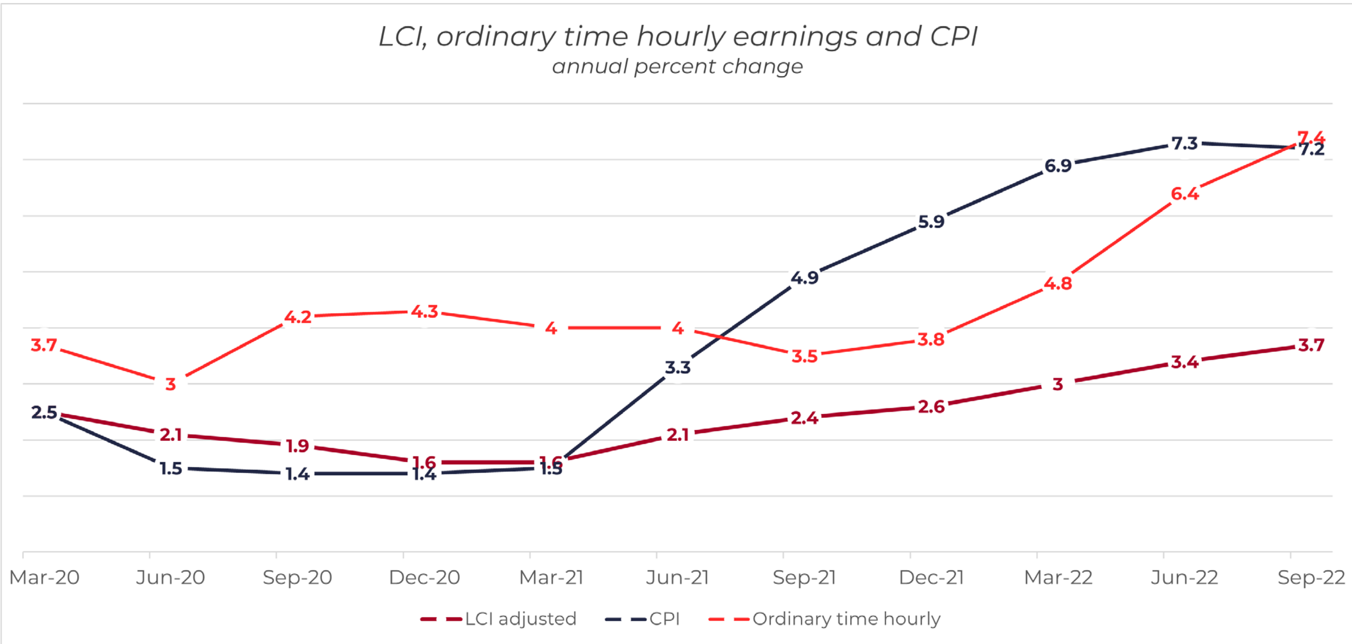
Wages, Labour Cost Index & Quarterly Employment Survey

For the September 2023 quarter, the Labour Cost Index (LCI) increased 3.7% in comparison to September 2021. This is the second largest annual increase in wage inflation since the series began in 1993.

Private sector LCI increased 3.9% while public sector LCI increased 3.1%.

Quarterly Employment Survey (QES) average hourly ordinary time earnings for September has increased 7.4% ($2.61) to $37.86. This is the largest annual increase in ordinary time hourly earnings since this series began in 1989.

This means that wages for the year have outstripped inflation. This will be a welcome relief for many people, as inflation has been outstripping wages since September of last year.

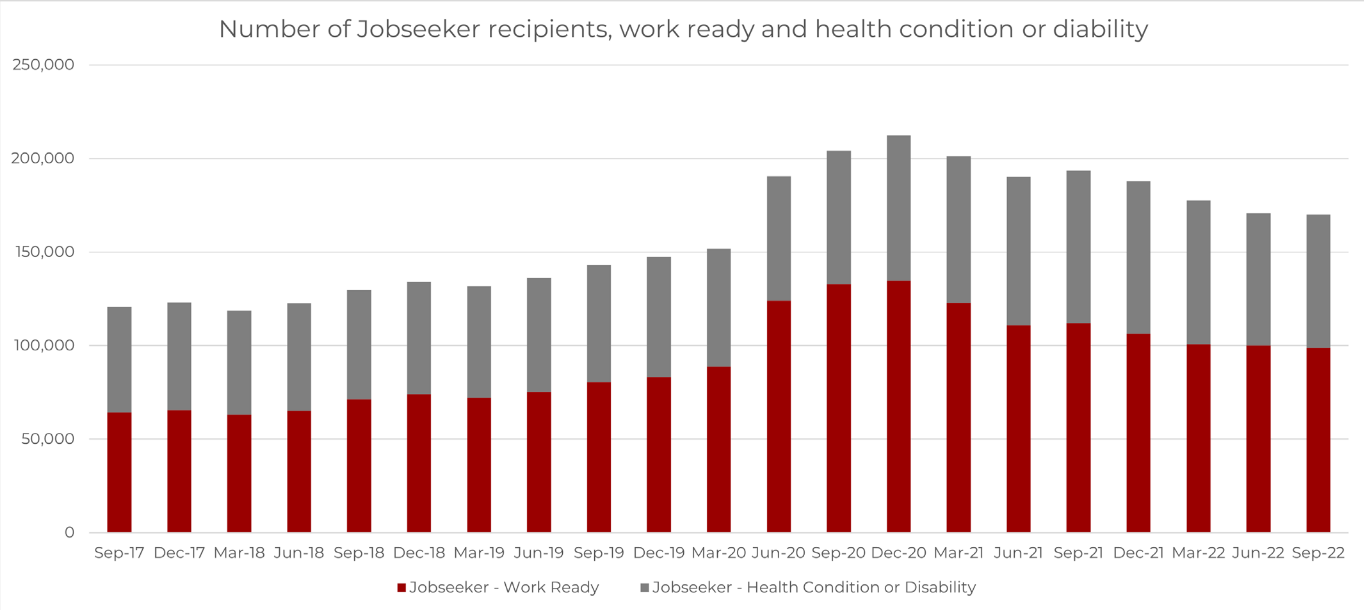


LCI is often lower than the change in average ordinary time hourly earnings as measured by the Quarterly Employment Survey (QES). This is because the adjusted LCI is the price for a fixed quality and quantity of labour, such as the cost of a plumber doing the same job each time for the same amount of time. The QES average hourly ordinary time earnings measures the income received by workers and includes pay rises from promotions and switching to a different job.

Job Seekers

As of September 2022, there were a total of 170,037 people receiving Jobseeker support, made up of 98,934 who are work ready and 71,103 people with a health condition or disability. This figure is relatively unchanged from the previous quarter when 170,760 people were on Jobseeker.

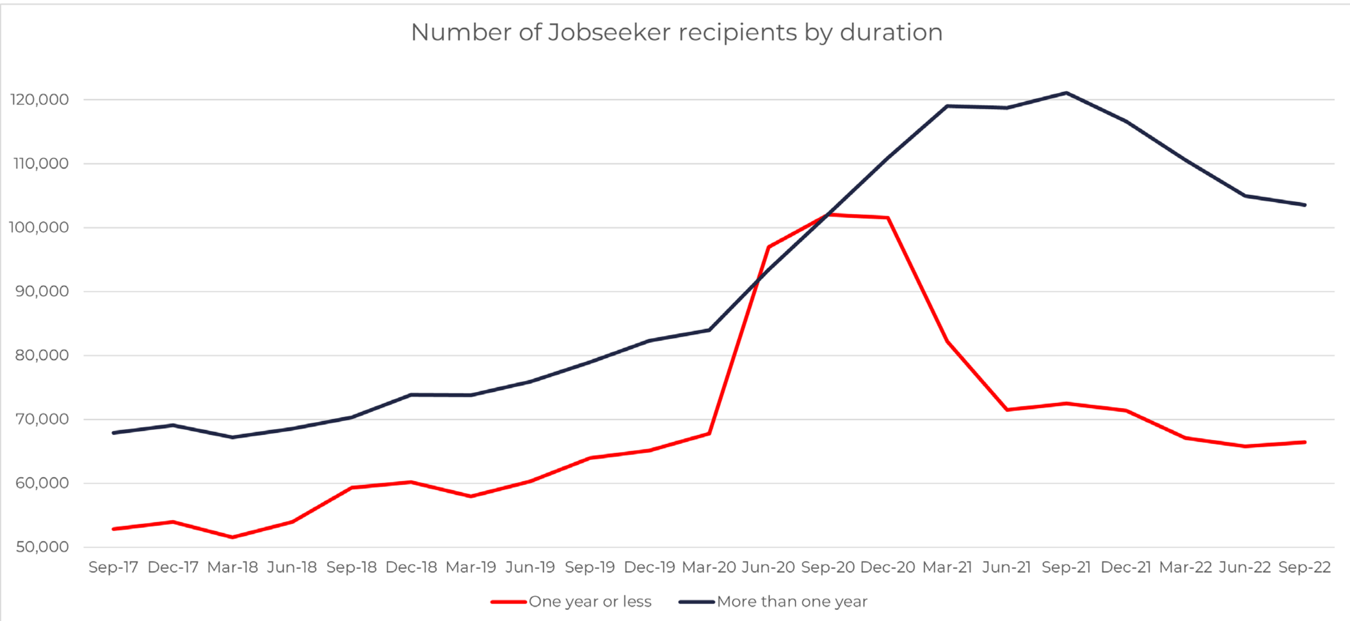
Over the past 12 months - September 2022 when compared to September 2021 - there are now 23,016 fewer people receiving Jobseeker support payments. 57% (13,112) of those who moved off Jobseeker were work ready.



The number of recipients on Jobseeker Work Ready has been consistently declining since June 2021.

The proportion of working-age population receiving Jobseeker Support this quarter is 5.4%. The reason this figure is 5.4% while the unemployment rate is at 3.3%, is because you can receive Jobseeker alongside part-time paid work.

For the September quarter, there was also a decline of 17,526 people receiving Jobseeker support for longer than one year in comparison to September 2021.



Economic Indicators

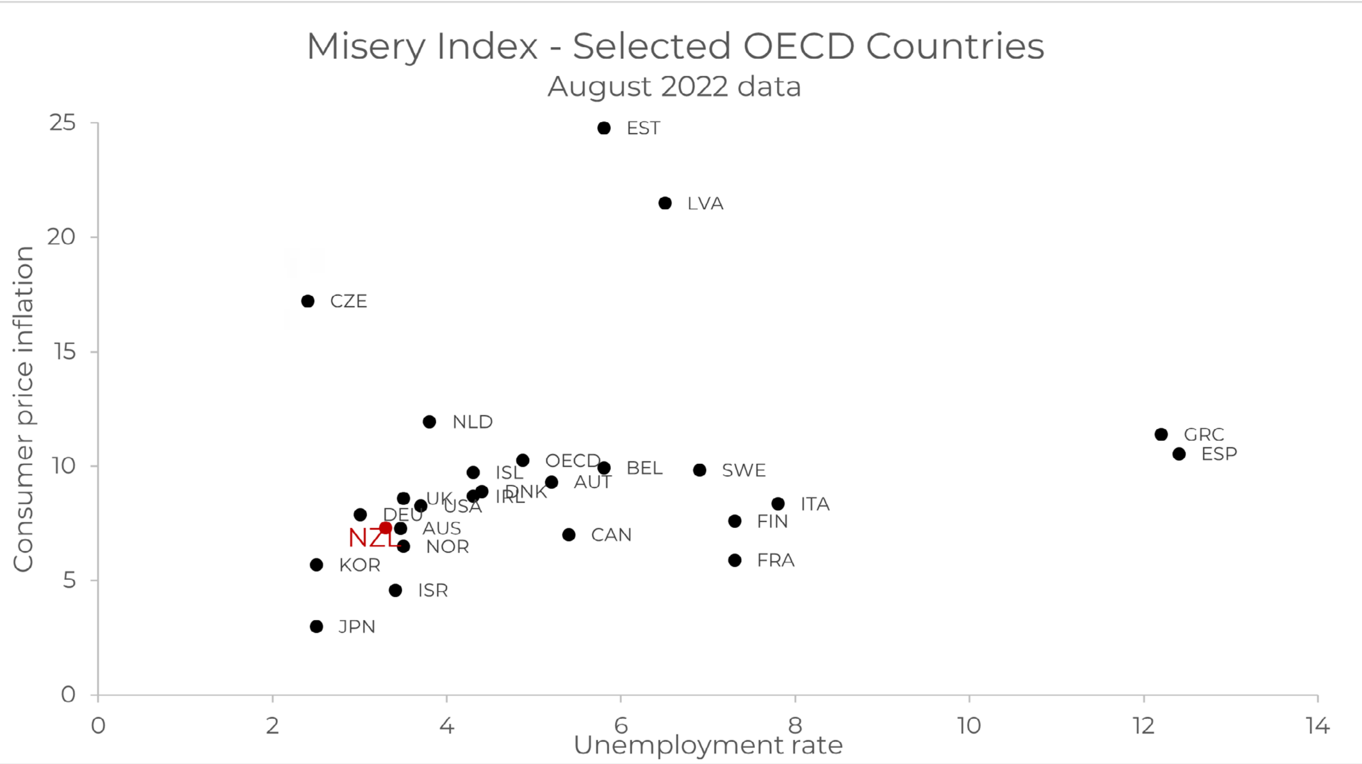
Consumer price index

Consumer price inflation fell marginally in the September quarter, from 7.3% per annum to 7.2%. This surprised the Reserve Bank, most bank economists, and CTU economists who were anticipating a larger fall. As a result, it is now expected that the Reserve Bank will take the Official Cash Rate (OCR) higher in its attempt to bring inflation down. While the Reserve Bank forecast in August was that the OCR would peak at 4.1% in 2023, economists in the banking sector are now forecasting that it will rise to at least 5%.

A higher OCR will likely mean higher unemployment. Indeed, driving the unemployment rate higher is an explicit objective of the Reserve Bank when it raises interest rates. In late-October, Reserve Bank Governor Adrian Orr stated that “returning to low inflation will, in the near-term, constrain employment growth and lead to a rise in unemployment”.

As we discussed in last month’s Bulletin, the OCR is the wrong tool for the job here, and continuing to hike it will only load more economic stress onto working people. Continued OCR hikes also risk setting off a vicious downward spiral, where rising unemployment, combined with steep hikes to mortgage rates will force significant numbers of households into financial distress. In the Reserve Bank’s latest *Financial Stability Report*, this is highlighted as “the biggest risk to financial stability at present”.

Further, the Reserve Bank is highly unsure about what the economic impacts of continued rate rises will be. As noted in the report, “historical experience provides little indication as to the economic impact of the current tightening cycle, particularly given the public and private debt burdens that have built up across [the world] in the past decade”. These factors all suggest that the best course of action is for the Reserve Bank to moderate its tightening cycle.

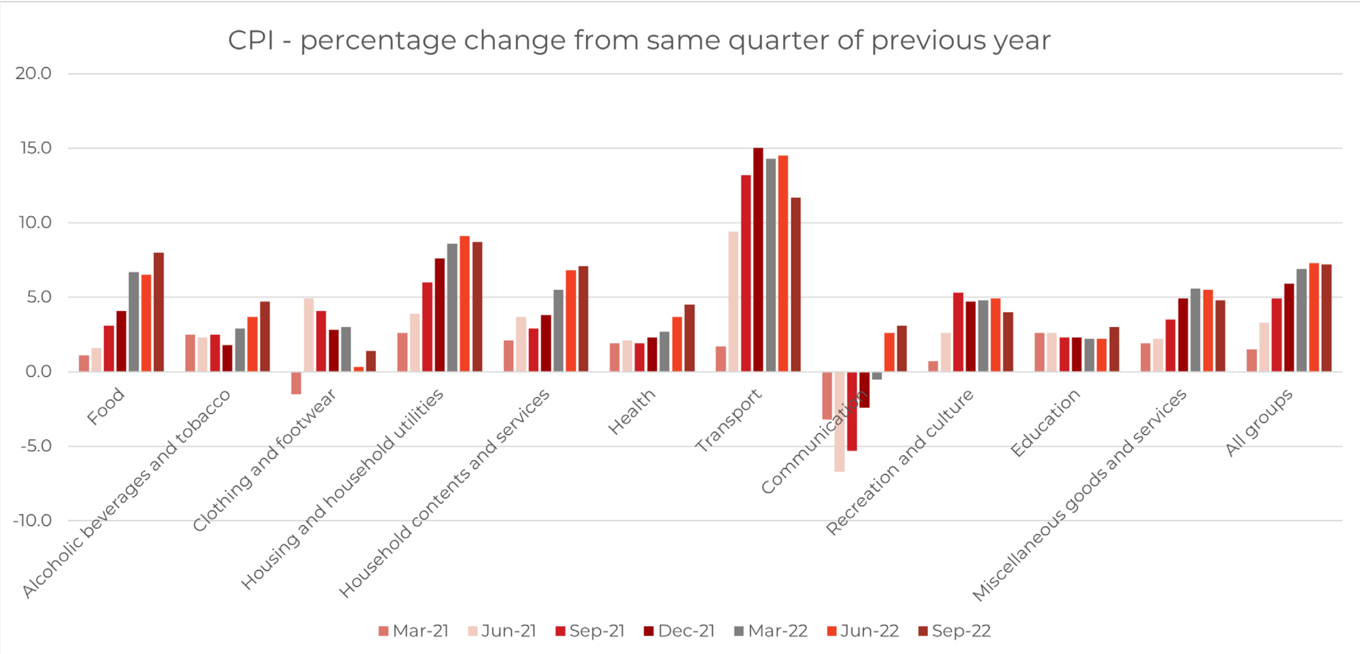


Importantly, current inflation growth is a global story, and by comparison, the New Zealand economy is in a relatively strong position. This is can be seen on our "Misery Index" graph above, both unemployment and inflation are running significantly lower in New Zealand than in most other developed countries. Although inflation is driving up the cost of living for Kiwis, and it is important to bring it down over time, we are in a comparatively better starting position to do this than most of our peers.

Contributions to CPI

The largest contributions to annual CPI for the September quarter were:

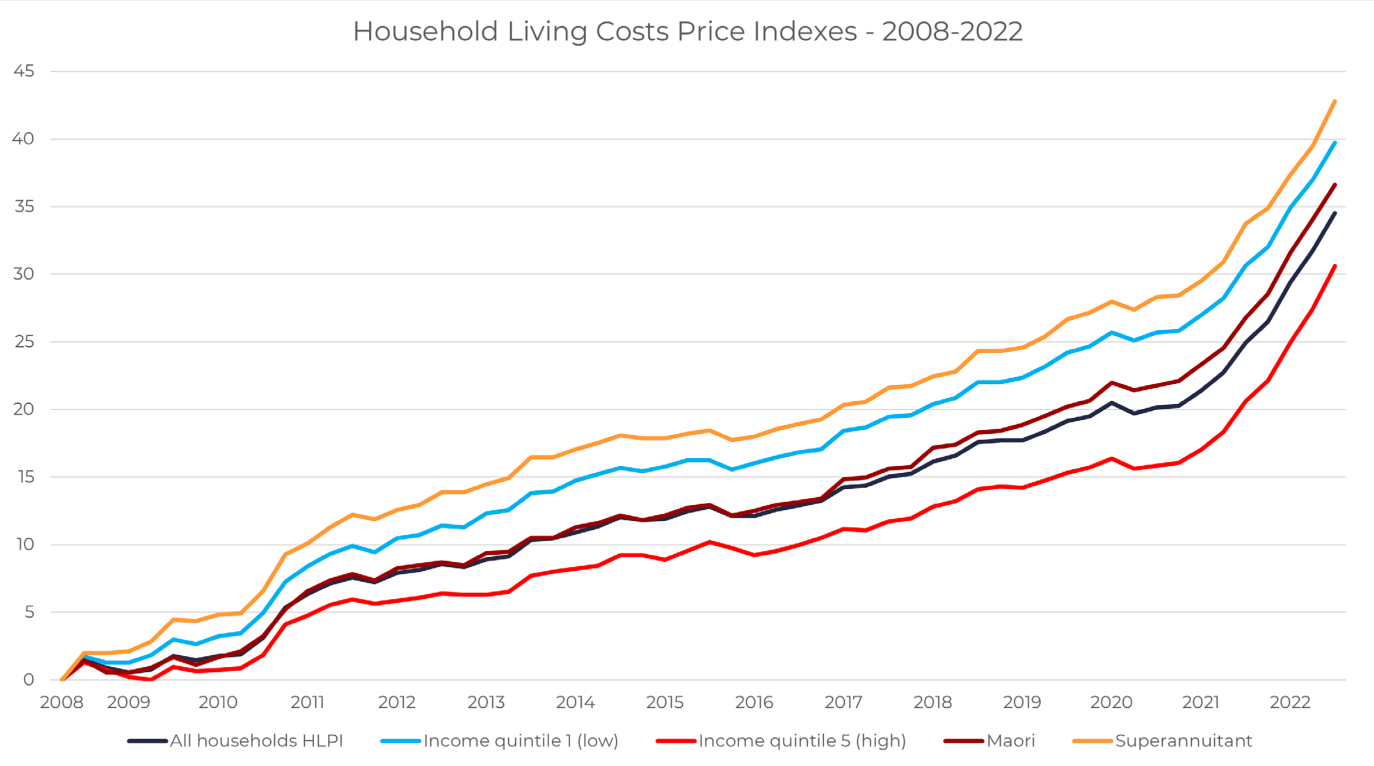
- Transport, 11.7% – driven largely by a 19% rise in the cost of petrol.
- Housing and household utilities, 8.7% – driven by a 16.8% rise in the cost of construction, an 8.4% rise in maintenance costs, and a 4.6% rise in the cost of renting.
- Food, 8% – driven primarily by a huge 13.8% increase in the price of fruit and vegetables, an 8% rise in the cost of grocery food, and a 7.2% rise in the cost of meat, poultry, and fish.
- Household contents and services group, 7.1% – driven by a 10.3% rise in the cost of furniture and furnishings, a 11.2% rise in the cost of household tools and equipment, and a 6.4% rise in the cost of glassware and tableware



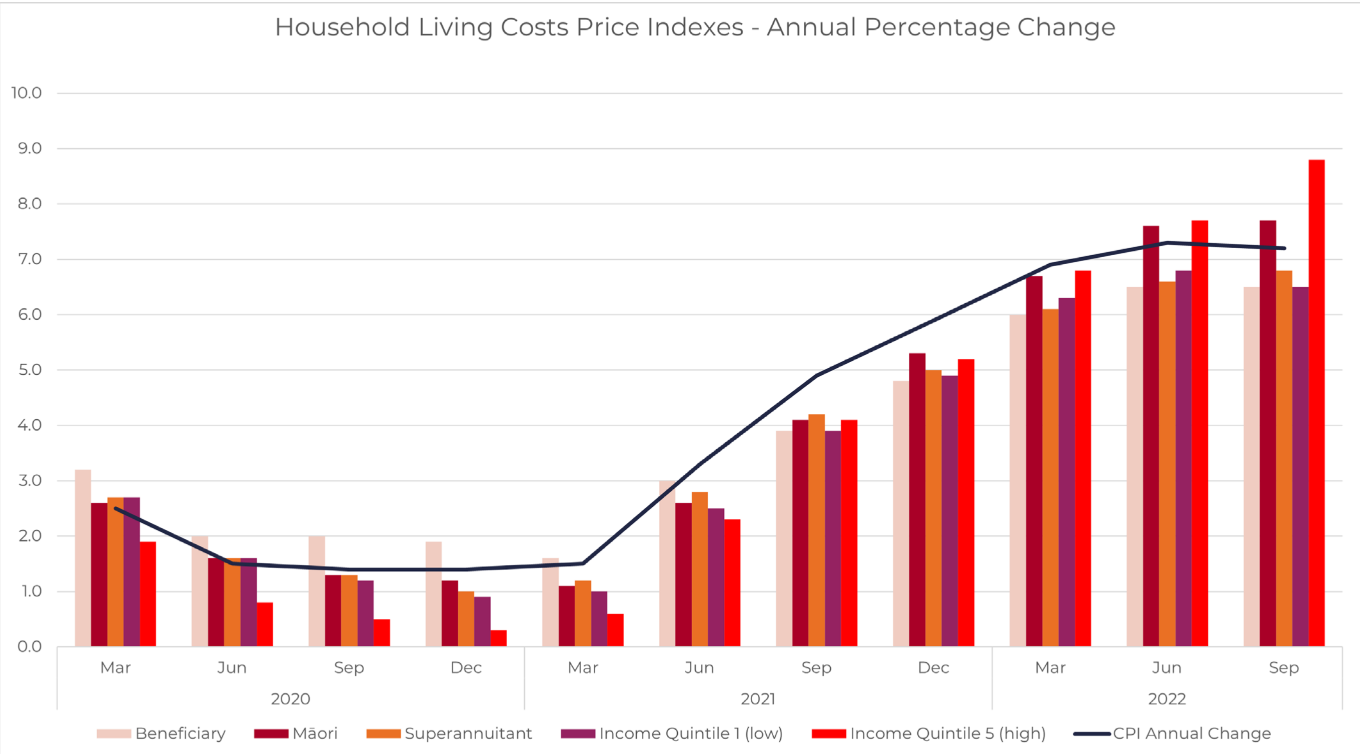
Household living cost price index

The Household Living Cost Price index (HLCPI) provides insight into how inflation is experienced by different household groups in New Zealand. One important difference between the HLPI and the CPI is that the HLCPI includes interest payments that households make on debt. This is why at 7.7% it is higher than the CPI rate of 7.2%

Superannuitant alongside Low-income households, in which Māori and Pacific people are disproportionately represented, continue to be the most affected by the cost-of-living crisis. The below graph shows how low-income groups have borne the brunt of inflation over the past decade-and-a-half, while those on the highest incomes experience inflation at a lower rate.



The bar graph below shows annual percentage change in the cost of living for different households. The past three quarters have seen the cost of living rise more significantly for the highest income quintile. This is likely because of rising interest rates. Higher-income groups have more wealth in housing. Therefore, as mortgage rates have gone up, they have faced steeper repayments.



Rent price index

The annual Labour Cost Index sits at 3.7% for the September 2022 quarter, which for the first time since December 2020 is above the flow of rental housing costs. The Rent Price Index (RPI) flow sits at -1.3%, while stock is 4.1%. The flow measure captures price changes where a new tenancy started. The stock measure shows rental price changes across the whole rental population

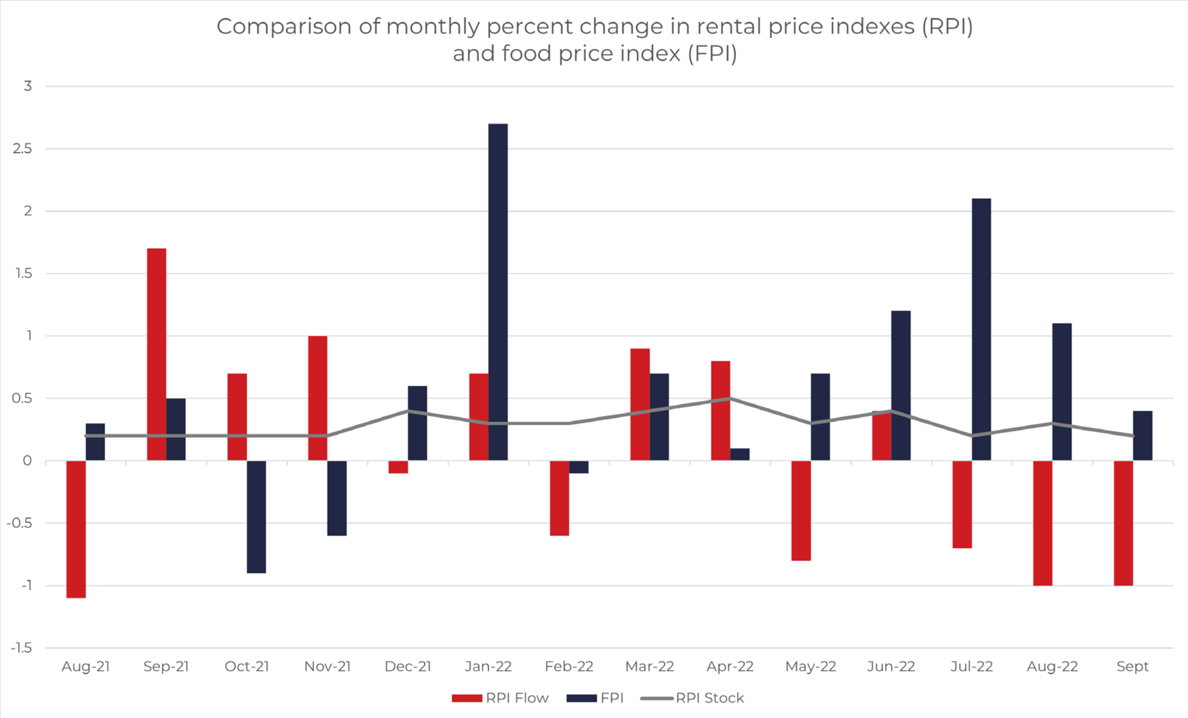
The rental market overall appears to be cooling, and this month the RPI flow has declined by 1.3%, while the stock remains stable with an annual increase of 4.1% in comparison to 4% last month.

The monthly change in stock of housing has been fairly stable with month-on-month increases between 0.2-0.4% for the past 4 years. RPI stock for September is 0.2%, down from 0.3% last month.

The monthly flow of housing has declined for the third consecutive month. For September it dropped by 1%, which is no change from 1% in the previous month and -0.7% in July.

Monthly flow data shows its second consecutive month of decline (down 0.8% in May, up 0.4% in June, and down in both July 0.8%, and August 1%). Annual flow shows its fourth consecutive month of decline.

The largest increase in flow was as usual seen outside of major cities. For September, the largest annual increase was felt in Canterbury, with an increase of 6.8%, followed by the Rest of the South Island (5.8%) and the North Island, excluding Wellington and Auckland, (4.1%).



The RPI increases in the North Island was more than three times that of Auckland (2.5%) and Wellington (0.9%). Earlier this year in April, the RPI flow increased 6.9%, however, the latest figures for August show rent increasing at a much smaller rate of 3.6%.

Food prices

Food has continued to rise in price, up 8.3 annually, with the largest contributors being the rising cost of fruit and veges up 16%, followed by grocery food prices up 7.7% in comparison to September 2021.

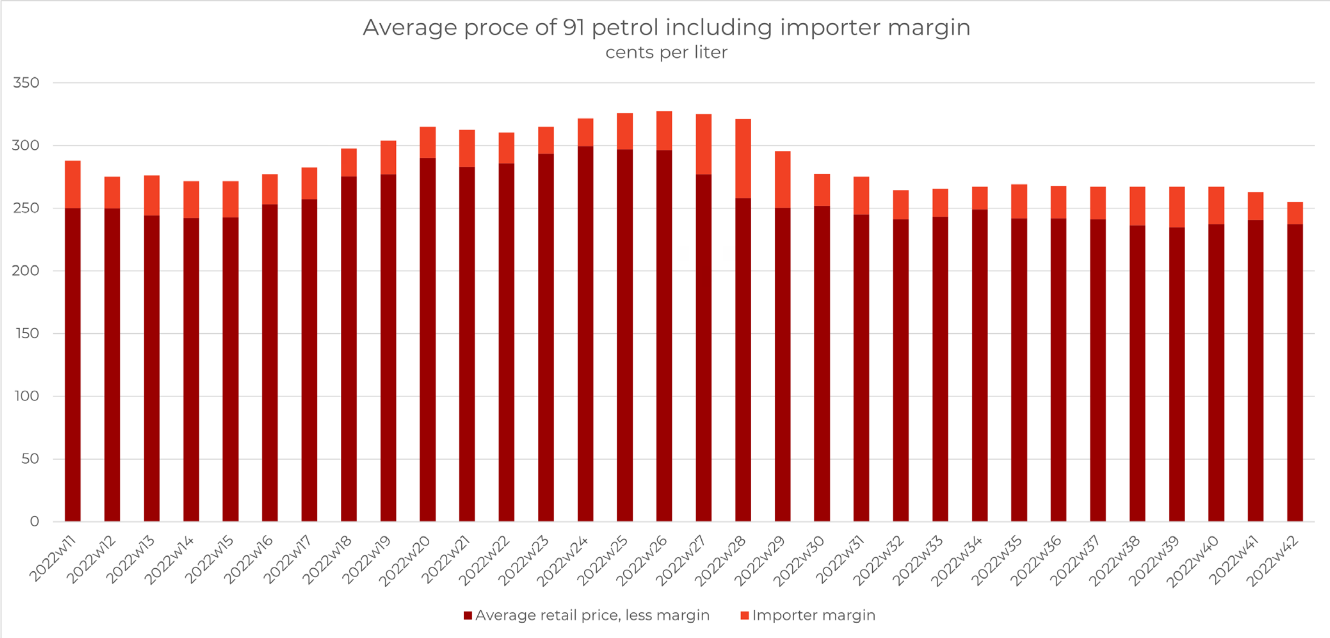
The monthly change for September, compared to August was 0.4% (0.9% after seasonal adjustment). A breakdown of the seasonally adjusted monthly movements is provided in the table below.

Food Price Index monthly change (seasonally adjusted) %					
	May 22	**June 22**	**July 22**	**Aug 22**	**Sept 22**
Fruit and vegetables	▲0.3	▲0.7	▲3.1	▲2.3	▲3.9
Meat, poultry, and fish	▼0.5	▲0.9	▲1.2	▲1.2	▲1.0
Grocery food prices	▲1.2	▲0.5	▲1.0	▲1.1	▼0.1
Non-alcoholic beverage prices	▲1.1	▲1.4	▲0.5	▼0.9	▲1.8
Restaurant meals and ready-to-eat food	▲1.0	▲0.7	▲0.6	▲0.3	▲0.6

Petrol prices steady

Petrol prices have remained more or less steady since September, well down from the mid-year high of $3.27 per litre for 91 octane petrol. Cheaper petrol at the pump has been driven by falling oil prices internationally. The drop in oil prices is partially due to growing fears of recession, which reduces the demand for oil around the world.

MBIE's weekly fuel-price monitoring has 91 octane petrol at $2.55 per litre, 95 octane at $2.72 per litre, and diesel at $2.64 per litre for the week ending 23 October. Importer margins for the week ending 23 October have fallen back slightly since September, at $0.17, $0.30, and $0.25 respectively.

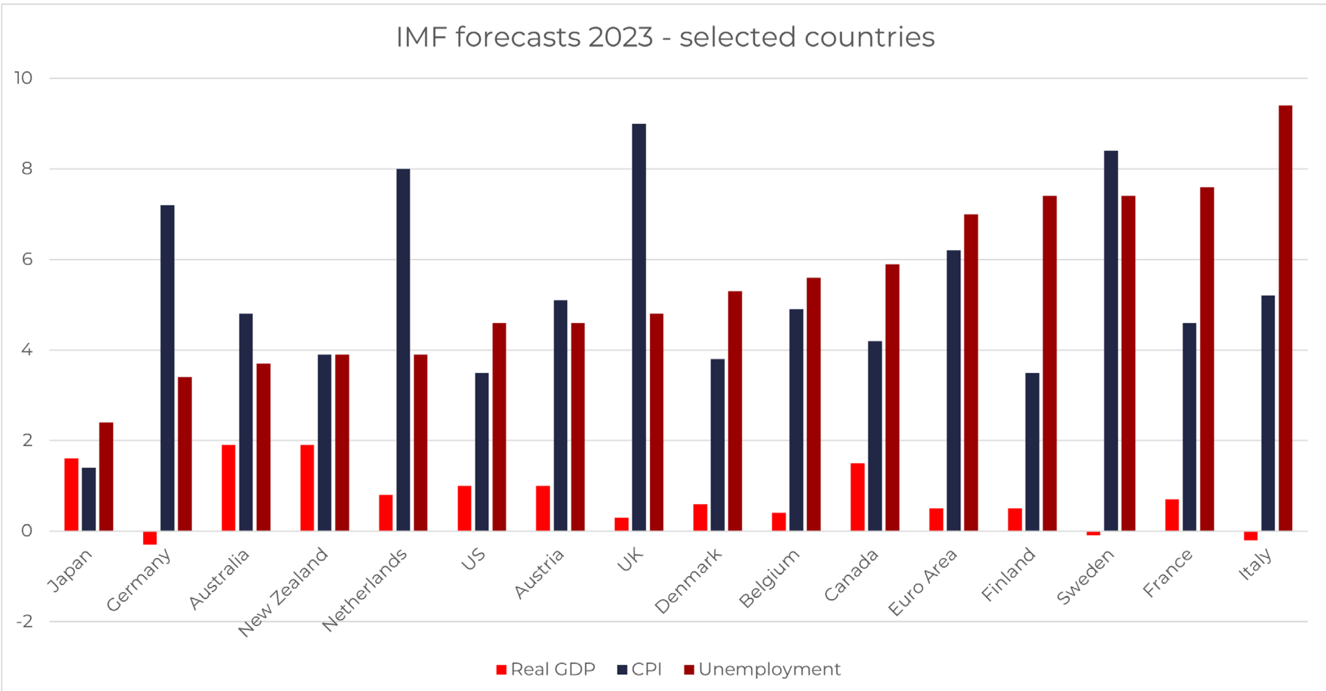


Economic forecasts and confidence

IMF World Economic Outlook

The IMF World Economic Outlook, which provides analysis of global economic developments as well as economic projections for the near future, was released in October.

Although the global economic outlook is turbulent, the New Zealand economy stands out as relatively strong. The IMF forecasts that the New Zealand economy have the largest GDP growth among the developed countries we have forecasts available for below. They predict that New Zealand's economy will grow by 1.9% in 2023; inflation will fall to 3.9%; and that the unemployment level will remain relatively low at 3.9%. As the graph below shows, these forecasts have the New Zealand economy in a stronger position in 2023 than most of the developed countries we normally compare ourselves to.



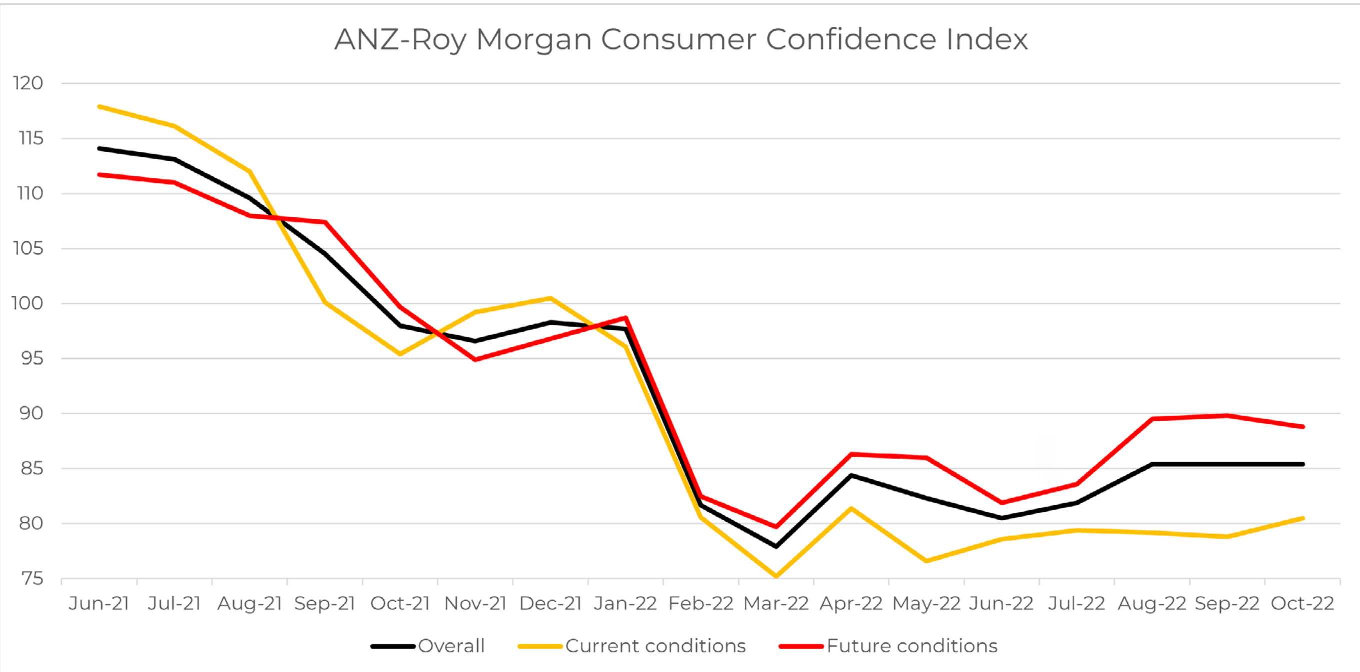
The IMF forecasts that global GDP growth will be 2.7% in 2023, a slight downward revision from its July forecast of 2.9%. The US, EU, and China – the world's three largest economic blocs – are all expected to stall or contract at some point in late 2022 or 2023. This is driven primarily by steep and uncoordinated interest rate hikes by central banks, the continuance of the zero-Covid policy in China, and the ongoing war in Ukraine that is keeping energy prices high, particularly in Europe. All up, the IMF forecasts that output in developed economies will expand 1.1% in 2023, while output in developing economies will expand 3.7%.

Global inflation is forecast to peak later this year, at 8.8%, up from 4.7% in 2021. The IMF forecasts that it will drop to 6.5% in 2023 and then to 4.1% in 2024. For developed economies, where disinflation will be strongest, inflation is expected to peak at 7.2% in 2022 before falling to 4.4% in 2023. For developing economies, inflation is expected to peak at 9.9% in 2022, and then to decline to 8.1% in 2023.

However, uncertainty is high, and the forecasts for 2023 are contingent on policymakers successfully navigating a difficult path. As the IMF notes, "policy trade-offs to address the cost-of-living crisis have become acutely challenging. The risk of monetary, fiscal, or financial policy mis-calibration has risen sharply at a time when the world economy remains historically fragile and financial markets are showing signs of stress". As we discussed above, this uncertainty should give Reserve Bank decision-makers pause in their mission to drive interest rates higher. Although the New Zealand economy is in a relatively strong position at present, this could be undermined if the OCR is pushed too high.

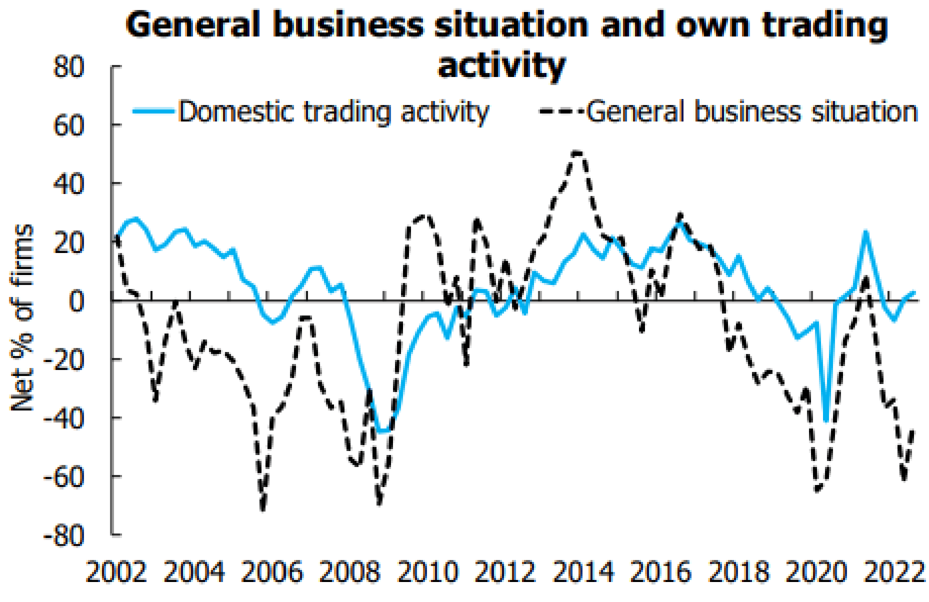
Consumer and business confidence

The ANZ–Roy Morgan Consumer Confidence Index remained unchanged for October, at 85.4, indicating that consumer confidence remains low in New Zealand – although above the low-point of 77.9 reached in March 2022. A score above 100 on the index demonstrates that consumers have confidence. Less than 100, and they are pessimistic about the future. The last time the index was above 100 was in September 2021, at 104.5.



ANZ notes that the most reliable indicator of consumer confidence in its survey is whether households think it is a good time to buy a major household item. A net 22% of people surveyed in October think it is a bad time to buy a major household item, which is a marginal improvement from the net 25% of September.

A net 18% of people surveyed reported that they were financially worse off than the same time last year, and only a net 4% surveyed reported that they expect to be better off financially one year from now. Respondents were generally pessimistic about the economic conditions New Zealand would experience over the next 12 months, and inflation expectations have remained stable, with respondents expecting 5% CPI inflation over the next two years – which is out of step with the IMF forecast discussed above. Overall, confidence in current conditions rose slightly, from 78.8 to 80.5, while confidence in future conditions dropped slightly, from 89.8 to 88.8.



Source: NZIER

NZIER's Survey of Business Opinion for the September quarter recorded a slight uptick in business confidence. NZIER's survey is based on the responses of around 4,300 firms as to whether business conditions will deteriorate, stay the same, or improve in the near future.

The data, shown in the graph above, demonstrates one of the largest gaps recorded between domestic trading reality and perception. This further suggest that domestic business sentiment is unmoored from economic reality. Looking at the chart back to 2002, the strongest relationship appears to be political. The general business perception improved during National's term in office and declined significantly when Labour was in power, both under Helen Clark and Jacinda Ardern.

While a net 42% of the businesses surveyed expect general economic conditions to deteriorate soon, this is down from a net 62% in the June quarter. The retail sector is the most pessimistic, with a net 61% of retailers surveyed expecting economic conditions to deteriorate through the rest of the year. Meanwhile, a net 57% of building sector firms surveyed and a net 37% of service sector firms surveyed expect economic conditions to deteriorate.

The pessimism of both consumers and business is somewhat out of step with the reality of New Zealand's economic situation. As discussed above, real GDP growth, inflation, and unemployment in New Zealand all compare favourably to most of our OECD peers. The enduring pessimism of business and consumers likely reflects the intense economic uncertainty that has been unleashed by the fallout from the pandemic, the war in Ukraine, and unexpectedly high inflation. It may also reflect the self-reinforcing nature of negative economic narratives, which are certainly not in short supply at the moment.

Card spending

The seasonally adjusted total value of electronic card spending increased by $218 million to $8.9 billion from August to September 2022 (a 2.2% increase). This monthly increase indicates that consumer spending remains strong and somewhat out of step with the pessimistic sentiment captured in the ANZ–Roy Morgan poll (discussed further below).

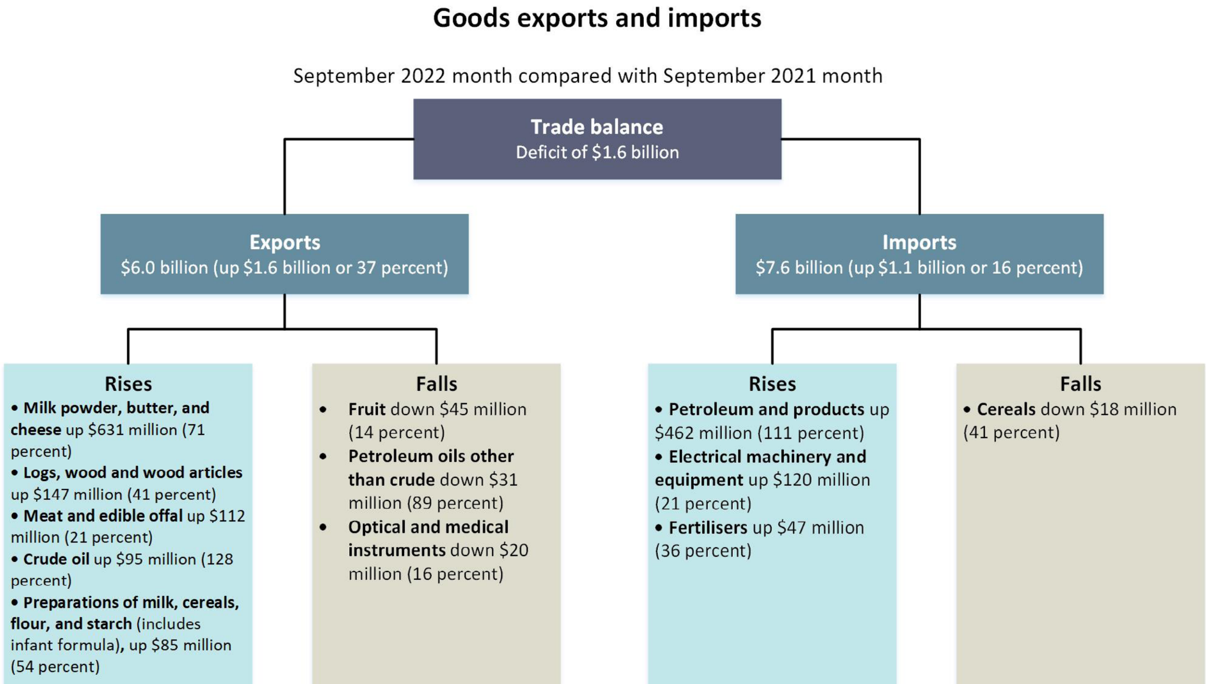
All up, total retail card spending rose $87 million, while non-retail card spending increased $28 million from August to September 2022. There was a total of 158 million transactions across all industries, with an average $54-spend per transaction.

International and Trade Figures

The overseas merchandise trade statistics

Comparing the September 2022 month with the September 2021 month, goods exports rose $1.6 billion to $6 billion (a 37% increase). Dairy products were the largest contributor, up $631 million to $1.5 billion (a 71% increase).

Goods imports rose $1.1 billion to $7.6 billion (a 16% increase), with petroleum imports the largest contributor (up $462 million to $879 million – a 111% increase). This large increase was due to the Marsden Refinery closure.



Source: Stats NZ

Other Economic Indexes

Government bond yields

Yields on New Zealand Government bonds have risen steadily through late 2021 and into 2022, as inflation has remained persistent and the Reserve Bank has continued to tighten monetary policy. Further monetary tightening, both domestically and globally, may see yields continue to climb higher.

The yield for 10-year New Zealand Government bonds reached an 8-year high of 4.68% on 19 October, before falling back to 4.18%, as of 31 October.

Yield refers to the expected rate of return that an investor will receive for the duration they own a debt security such as a government bond. Government bond yields are a useful indicator of how risky investors consider government debt to be. When confidence is high, yields will tend to fall. They also affect the cost of government borrowing. As yields rise, so too do government debt repayments.

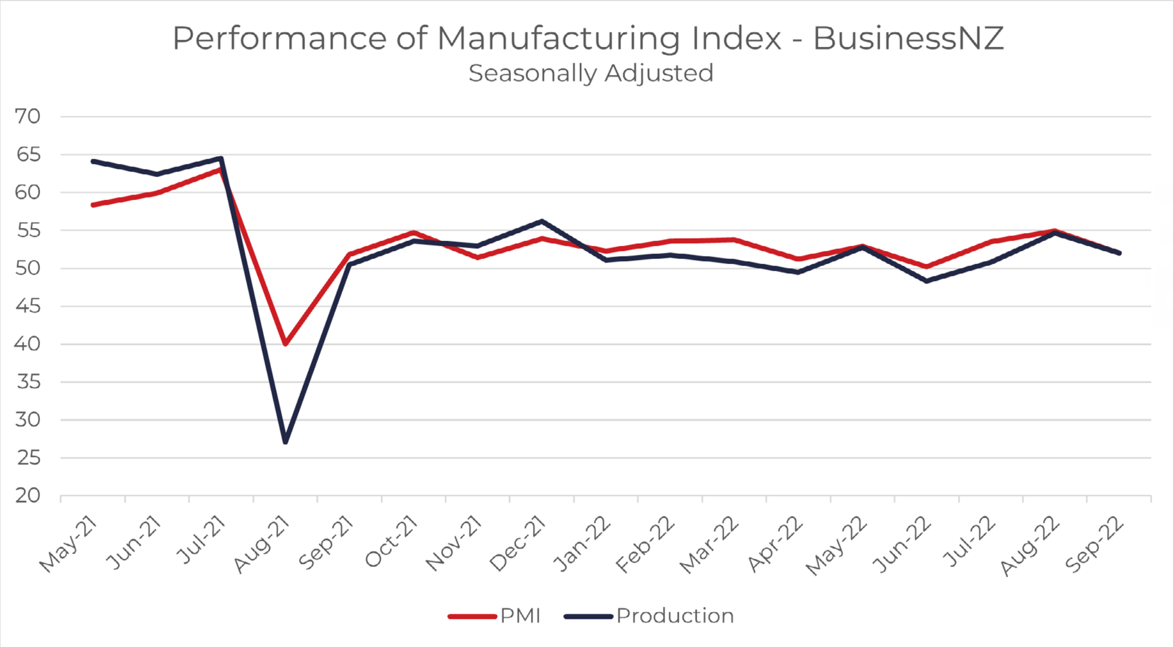
Source: *https://tradingeconomics.com/new-zealand/government-bond-yield*

BNZ BusinessNZ Performance Indexes

The BNZ–Business NZ Performance of Manufacturing Index (PMI) provides an indication of the levels of activity in the domestic manufacturing sector. A figure above 50 indicates that manufacturing activity has been generally expanding, while a figure under 50 indicates that it has been generally declining; the long-term average of the index is 53.1.

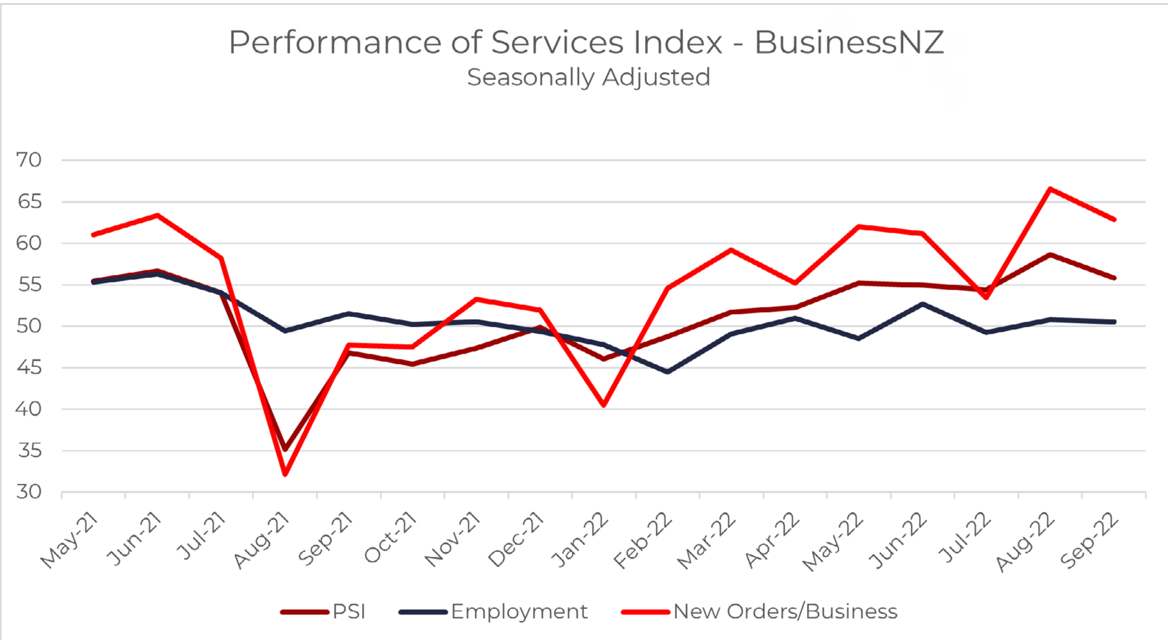
The index fell slightly in September, down 2.8 points to 52. This fall in the PMI was driven by a drop in production (down 2.5 points to 52), employment (down 1.7 points to 51.9), and new orders (down 11.1 points to 48.4). This large fall in new orders suggests a weakening of demand. Meanwhile, finished stocks rose 3 points to 55 and deliveries rose 0.5 points to 54.5.

According to BNZ economist Doug Steel, “the overall trend remains positive, but with ongoing volatility around it. On the positive side, the PMI’s 3-month moving average has continued to edge higher this month but, not so good, the 52.0 monthly reading is now back below the PMI’s longer-term norm”.



New Zealand's positive PMI contrasts with a negative outlook in the global PMI, which fell from 50.3 in August to 49.8 in September.

The BNZ–Business NZ Performance of Services Index (PSI) for September was at 55.8, down 2.8 points from August, but still strong. The PSI has been above the long-term average of 53.5 for five consecutive months now. Both the activity/sales and new orders/business sub-indexes remain very strong, at 59.2 and 62.9 respectively.



September's employment sub-index of 50.5 was largely unchanged since last months 50.8.

For the PMI and PSI, a figure under 50 indicates falling activity, above 50 indicates growing activity. Overall, the PMI and PSI along with their sub-indexes paint a picture of strong economic activity and expansion for the September quarter. This quarter is the PSI's 7th consecutive month of expansion.

Real estate

According to REINZ's Monthly Property Report for September, the median price for a residential property in New Zealand has increased to $811,000, up 1.4% from August. Year-on-year, the median price has increased 2%, up from $795,000 in September 2021 to $811,000.

Auckland has seen significant falls, down 5% month-on-month to $1,045,000 and 8.3% year-on-year to $1,045,000. Outside of Auckland, however, there was a 2.1% increase from August, with the median price rising to $715,000; year-on-year, there was a small decrease of 0.7% to $715,000.

All up, annual median price declines have been registered in Auckland (-8.3%), Waikato (-0.6%), Bay of Plenty (-3%), Gisborne (-4.8%), Hawkes Bay (-7.8%), Manawatu/Whanganui (-10.2%), Wellington (-3.5%), Nelson (-12.4%), Marlborough (-9.2%), and Otago (-3.3%). Increases have been registered in Northland (+5.2%), Taranaki (+17.8%), Canterbury (+2.8%), the West Coast (+30.9%), and Southland (+2.8%). Tasman has seen no change from September 2021.

Nationally, property sales were down 1.5% from August. Sales rose in Auckland, up 7.6% to 1,633, but declined elsewhere. On an annual basis, residential property sales decreased by 10.9%, falling from 5,548 in September 2021 to 4,943 in September 2022. The median number of days to sell a property in September was 47, up 10 days from September 2021.

Summary of key price movements, September 2022 – REINZ data

Median house price, year-on-year

- **National:** $811,000 – up from $795,000 (+2%)
- **New Zealand, excl. Auckland:** $715,000 – down from $720,000 (-0.7%)
- **Auckland:** $1,045,000 – down from $1,140,000, (-8.3%)
- **Wellington:** $820,000 – down from $850,000 (-3.5%)

Median house price, August/September

- **National:** $811,000 – up from $800,000 (+1.4%)
- **New Zealand, excl. Auckland:** $715,000 – up from $700,000 (+2.1%)
- **Auckland:** $1,045,000 – up from $1,100,000 (-5%)
- **Wellington:** $820,000 – up from $775,000 (+5.8%)

Government Accounts

The healthy state of the Government's accounts gives further room for optimism. Released in October, the *Financial Statements of the Government* show that core Crown tax revenue increased by $10.5 billion in the 2021/22 financial year. $4.1 billion of this came from a 26.2% increase in corporate tax revenue, and another $2.4 billion came from a 31.3% increase in what the Treasury calls "other individuals' tax revenue" – which is largely comprised of tax revenue from interest earned on investments. A further $3.3 billion came from an 11.2% increase in wage taxation, owing to both rising wages and an increase in the overall level of employment in New Zealand.

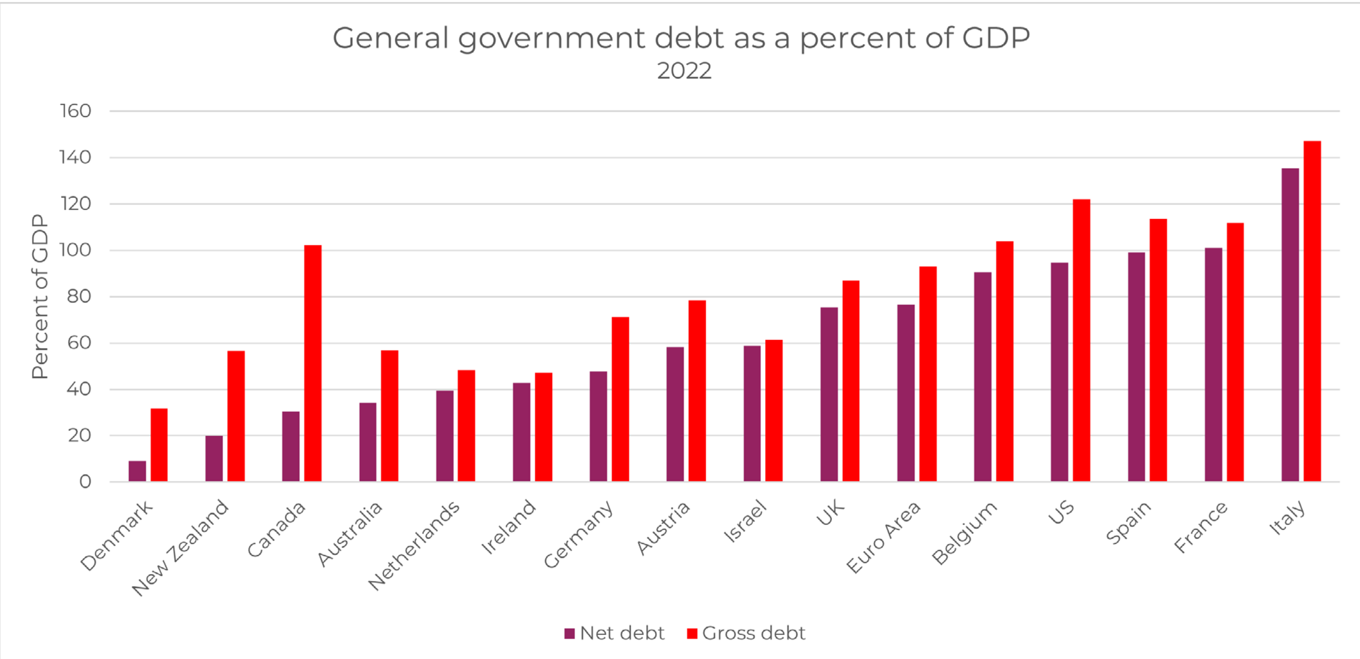
As we discussed in the last Bulletin, the Government's books were far stronger than forecast in May for Budget 2022. The Government's operating balance, revenue, and expenses were all significantly better than forecast, while net debt came in at the forecasted level.

Government Accounts 2022, Actual versus Forecast

	Percent of GPD		NZ$ Billions	
	Forecast	Actual	Forecast	Actual
OBEGAL*	-5.2	-2.7	-19.0	-9.7
Tax revenue	28.6	30.2	103.8	108.5
Total revenue	37.5	39.4	135.8	141.6
Total expenses	42.7	42.0	154.8	151
Net debt	16.9	17.2	61.2	61.9

** OBEGAL = operating balance before gains and losses.*

On a comparative basis, New Zealand has among the lowest levels of Government debt in the OECD. According to the IMF's figures, average government net debt among developed economies is currently 82.7% of GDP. By comparison, net government debt in New Zealand – using the IMF's measure – is 19.9%.



The status-quo bias is that a strong fiscal position is used as cover for a rainy day – whether that be a global economic shock, a natural disaster, or some other unforeseen crisis. However, this needs to be balanced against the slower-burning, but no-less-serious, challenges facing New Zealand. On this count, the strong tax-revenue base and extremely low levels of Crown debt posted in 2022 indicate that Government has ample fiscal capacity to tackle the big challenges we face in the shift to a carbon-neutral economy, our huge infrastructure deficit, and persistent poverty in New Zealand.