NZCTU
Te Kauae Kaimahi

Economic Bulletin

January 2024

NEW ZEALAND COUNCIL OF TRADE UNIONS
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Welcome to the January edition of the Economic Bulletin. In our monthly feature, we discuss the labour market outlook for the year, setting the forecast rise in unemployment in the context of the new government's reforms to employment relations. The Treasury expects that, by mid-2025, around 65,000 more people will be unemployed than in mid-2022, when unemployment was at record lows. Meanwhile, with the reimposition of 90-day trials for all businesses, the repeal of the Fair Pay Agreements Act, and proposed changes to employment law and the welfare system, the new government is setting about removing what security does exist for workers and the unemployed in New Zealand. The government has also announced that the minimum wage will only increase by 2% this April. Because inflation is forecast to be around 4–4.5% for the year ending March 2024, this means that minimum wage workers will experience a real terms pay cut.

In our regular updates, we examine the latest inflation, household living costs, migration, and government accounts data. Consumer inflation continues to fall faster than expected. This is good news for working households and may bring some interest rate relief later in the year. It also shows that the government's planned spending cuts are unnecessary. The government has argued that high levels of government expenditure has driven inflation, and so we need to cut this spending to bring inflation under control. But inflation has been steadily falling for a year now and is forecast to continue to do so without these cuts.

For the employment and wages data for the September 2023 quarter, please see the October/November 2023 Bulletin. For the GDP and balance of payments data for the September 2023 quarter, please see the December 2023 Bulletin.

As always, please get in touch if you have any feedback or suggestions for areas of future investigation.

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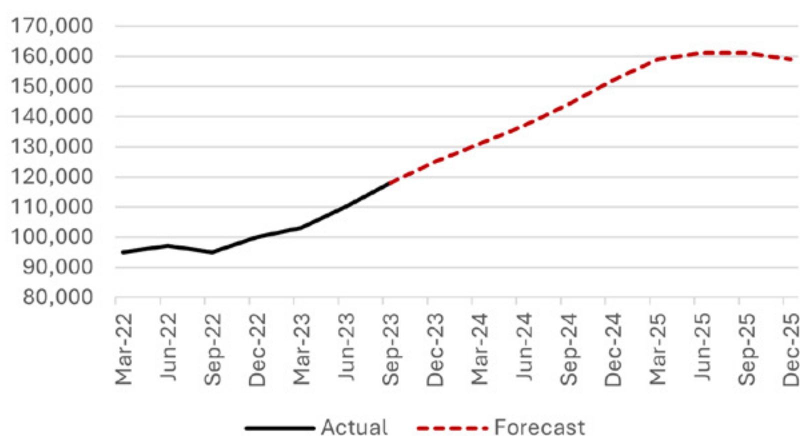
A dismal outlook for the labour market in 2024?

2024 is already proving to be quite a year on the economic front. Inflation is falling faster than predicted. The government accounts are in better shape than many expected – including the Treasury. Stock exchanges in the US and Europe are trading at record highs, meaning bonuses all around for Fortune 500 executives. Closer to home, dairy prices are up 40% from their lows in August last year. It is increasingly thought that the Reserve Bank will start to cut interest rates later this year, rather than continue to increase them.

The question we at the CTU ask is, “does all this translate into good news for workers?” Here, the story is much less clear. The lastest forecasts for New Zealand show unemployment increasing over 60% between 2022 and 2025. The Treasury expects that, by mid-2025, around 65,000 more people will be unemployed than in mid-2022, when unemployment was at record lows.

Figure 1: *Number of people unemployed, forecast.*



Source: *Treasury.*

But that’s not the only problem facing workers this year. The Treasury’s forecasts don’t include the likely impact of the new government’s public spending cuts. Savings of around 8.5% in total are being required from government departments. This is to pay for the tax cuts promised by National at the last election, which were forecast to cost $14.6 billion. New spending cuts totalling $2.4 billion were programmed to help pay for this, with most government departments targeted for change.

The Minister of Finance has announced that the targets of individual agencies will be informed by staffing growth since 2017. This means that the departments that have grown the most will be asked to cut even more than 8.5%. This will likely push thousands of people into unemployment, both as a direct impact of the cuts and through second-round effects as the cuts reduce demand in the wider economy.

That in itself would be bad enough. But the context in which these newly unemployed people will find themselves is also changing. The government has reintroduced

the ability for all employers to use 90-day trials when hiring new staff; it claims that this will make it easier for people at the margins of the labour market to find a job, because employers will be more likely to 'take a punt' on a hire they deem risky. Only, the evidence doesn't support this. A report produced for the Treasury in 2016, which reviewed the impacts of 90-day trial periods, found "no evidence that the ability to use trial periods significantly increases firms' overall hiring". Indeed the main benefit of the scheme was found to be "a decrease in dismissal costs for firms, while many employees faced increased uncertainty about their job security for three months after being hired".

The government has also removed the ability for Fair Pay Agreements (FPAs) to be negotiated for industries. FPAs would have created industry-wide minimum terms and conditions, particularly for those industries where workers face systematic disadvantages. These are industries where there is a race to the bottom for terms and conditions, where workers in need employment are taken advantage of by unscrupulous employers. Fair Pay Agreements would have helped end that. Sadly, this government has chosen to end FPAs, rather than to protect workers.

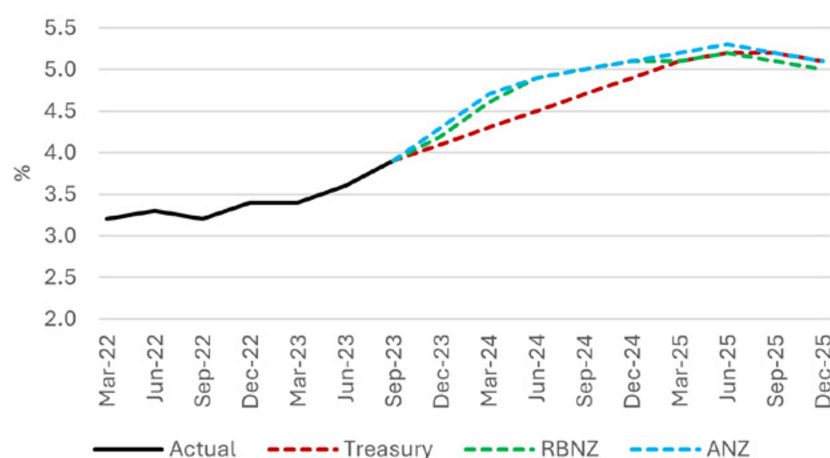
Further changes to employment law are still in the pipeline. The National/Act coalition agreement states that it wants to "Maintain the status quo that contractors who have explicitly signed up for a contracting arrangement can't challenge their employment status in the Employment Court". Firstly, that's not the status quo. Workers – such as those working for Uber – have successfully taken their employers to court to prove they are not contractors. What the new government is actually doing here is proposing a *change* to the law. Secondly, this change would mean that employers could force a contracting arrangement onto any employee, and then forever be able to treat them as a contractor. That would mean no annual leave; no Kiwisaver; no ACC payments. All without the ability for a worker to go to court to have their rights upheld. In the context of rising unemployment, employers would have plenty of leverage to force such arrangements onto employees.

This proposed change to employment law disregards the recommendations made by the tripartite working group – consisting of the CTU, BusinessNZ, and MBIE – on how to establish better protections for contractors. One of the central recommendations of this group was to allow "judicial determinations on employment status to cover other workers performing similar work for the same hiring entity under similar contractual terms (even if only one worker seeks a judicial decision)". The policy outlined in the National/Act coalition agreement will take us in precisely the opposite direction.

The National/Act coalition agreement also commits to introducing new compliance sanctions for welfare recipients. The National/NZ First coalition agreement goes even

further, requiring the government to "consider time limits for under 25s". This punitive approach to welfare is likely to make life harder for those who receive benefits. The Welfare Expert Advisory Group, a body set up by the previous government, was clear that there was "little evidence in support of using obligations and sanctions . . . to change behaviour; rather, there is research indicating that they compound social harm and disconnectedness". Indeed, the research on the use of benefit sanctions in New Zealand finds that "A high number of obligation failures are disputed (46 percent) and almost all (98 percent) of these disputes are upheld with the failure being overturned".

Figure 2: *Unemployment rate forecasts.*



Source: *Treasury; Reserve Bank; ANZ bank.*

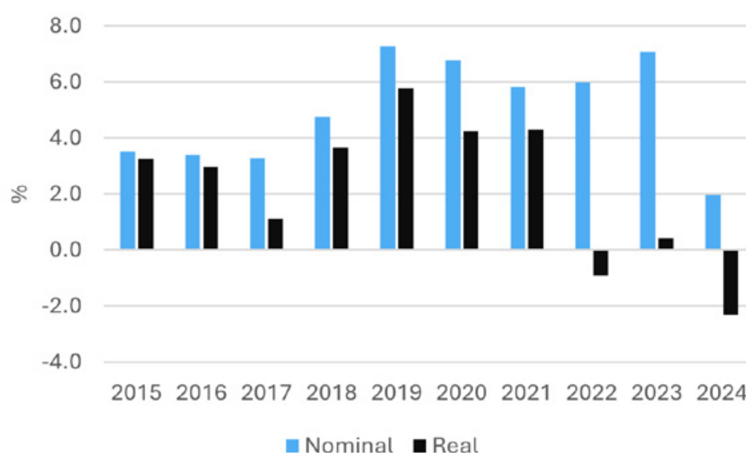
All of this wouldn't matter so much if the consequences of losing your job weren't as high in New Zealand, or if the likelihood of losing your job was extremely low. Unfortunately, neither is true. New Zealand has a high job turnover rate, relative to our OECD peers, meaning large numbers of workers cycling into and out of unemployment every year. We also experience a high rate of "wage scarring" – a term that economists use to describe the way losing a job impacts a person's income in the long term. Wage scarring occurs when someone loses their job and is forced to take whatever new job comes their way as quickly as possible – even if it means taking a big pay cut – because they have bills to pay and no savings. According to the OECD, "the average annual personal income for displaced workers in New Zealand (including government income transfers and redundancy pay) is about 20% lower in the second and third year after displacement than for non-displaced workers with similar characteristics". New Zealand research finds that, five years after displacement, displaced workers experience an earnings deficit of between 14–20%. This is some of the highest wage scarring in the developed world.

We could have addressed this problem with the income insurance programme that the previous government – in conjunction with unions and business – developed. This would have provided displaced workers with up to seven months of financial support

after losing their job, at 80% of their ordinary wages or salary. This financial support would mean that displaced workers could take their time to look for a job that best matched their skills, or to retrain and upskill. However, this programme has also been scrapped by the new government, and with it an opportunity to better protect workers has been lost.

Finally, this week the Minister for Workplace Relations and Saftey, Brooke van Velden, announced that the minimum wage would only increase by 2% this April, an increase of 45 cents per hour to $23.15. However, annual inflation is forecast to be between 4–4.5% for the year ending March 2024, meaning that minimum wage workers will be getting a real terms pay cut this year. This will be the second real-terms pay cut that minimum wage workers have received over the past three years, and by far the largest. If inflation comes in at 4.3% for the year ending March 2024 – as the Reserve Bank has forecast – then minimum wage workers will have experienced a cumulative 2.8% real wage cut since 2021.

Figure 3: *Minimum wage increases, nominal and real, 2015–24.*



Source: *MBIE. Note that the real figure for 2024 is a forcast based on the Reserve Bank's projected inflation of 4.3% for the year ending March 2024.*

The Minister ignored MBIE's advice that the minimum wage should be raised 4%, to $23.60 an hour. MBIE noted that this would better protect the real income of minimum wage workers and would not be expected to have any negative impacts on the level of employment. The CTU's position is that the minimum wage should be set at the living wage – which is currently $26 an hour.

Table 1: *Options for minimum wage increase from current level of $22.70.*

	Percentage increase	Hourly rate	Hourly $ increase	Yearly income
Government's decision	2.0%	$23.15	$0.45	$48,160
MBIE's recommended option	4.0%	$23.61	$0.91	$49,105
Matching projected inflation*	4.3%	$23.68	$0.98	$49,246
Living wage	14.5%	$26.00	$3.30	$54,080
* Based on the Reserve Bank's forecast of 4.3% for the year ending March 2024.				

Source: *MBIE; Reserve Bank.*

We can see a clear theme emerging with this new government: removing security for workers where it still exists. This is all justified by the claim that a "flexible" labour market is key to economic success. This is not a new strategy. New Zealand already has some of the most relaxed labour laws in the developed world – the product of the 1990s reforms. Workers' protections against dismissal in New Zealand are just behind those found in Paraguay when last measured by the OECD. Colombia is just below us. Slipping further down these ranks shouldn't be seen as an aspiration. What we need is a fresh approach, one which places a high value on security of employment, security of income, and worker voice.

Wages and prices

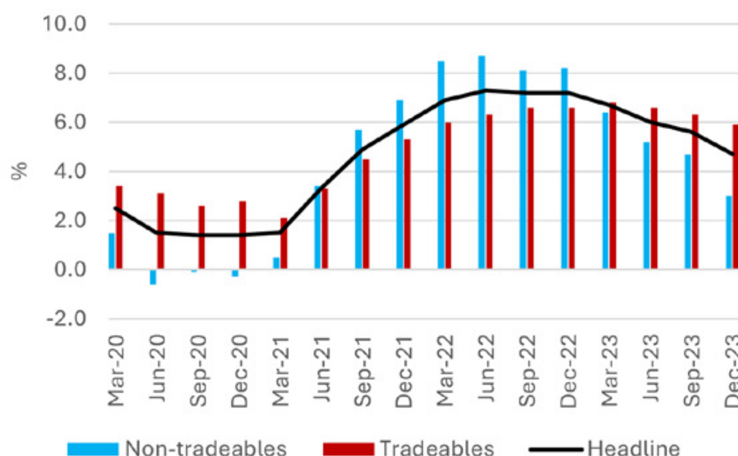
Consumer prices

Consumer inflation continued its rapid descent, falling to 4.7% annually in the December 2023 quarter, down from 5.6% in the September quarter. Quarterly inflation is now back in the Reserve Bank's target range; from a rate of 1.8% for the September quarter, it fell to 0.5% in December. Inflation in New Zealand is falling fast and is now below the OECD average of 5.4%, though higher than Australia (4.3%), the United Kingdom (4%), the United States (3.4%), and the Eurozone (2.4%).

This decline in the rate of inflation has been driven by the very rapid reduction in tradeable inflation (goods and services that are imported or are exposed to international competition). Annual tradeable inflation is down from 4.7% to 3% annually, and down from 1.8% to -0.2% quarterly, meaning tradeables prices actually fell, on average, in the December quarter. By contrast, non-tradeable inflation (goods and services that do not face foreign competition) has remained "stickier"; it is down from 6.3% to 5.9% annually, and from 1.7% to 1.1% quarterly.

As Figure 4 shows, our recent experience of inflation was initially driven by rising tradeable inflation – in other words, inflation was caused by global shocks beyond our control (the pandemic and the war in Ukraine) and this was "imported", in a sense, to New Zealand. As the impact of these shocks has unwound, so too has tradeable inflation. However, this "imported" inflation flowed through into domestic price-setting by making the cost of various inputs more expensive. Therefore, it is unsurprising that non-tradeable inflation is taking longer to come down.

Figure 4: *Annual consumer price inflation, 2020–23.*

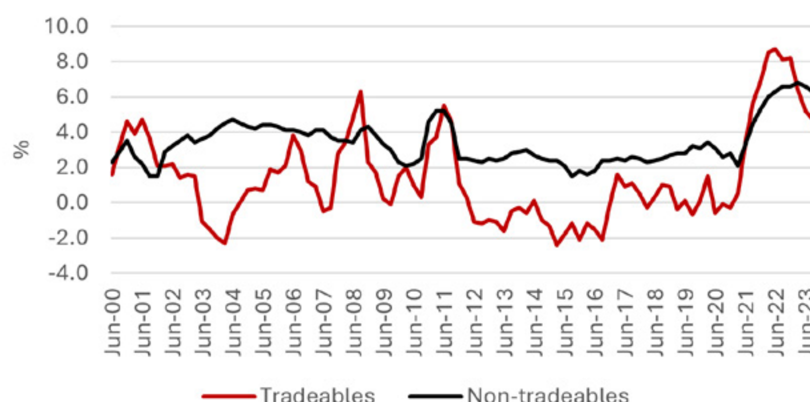


Source: *Statistics NZ.*

Non-tradeable inflation has been consistently higher than tradeable inflation in New Zealand over the past couple of decades. From 2000 to 2019 – a period in which inflation was relatively low and stable – non-tradeable inflation averaged 3.1% annually

(0.8% quarterly) compared to an average of 0.9% annually (0.2% quarterly) for tradeable inflation. As Figure 5 shows, non-tradeable inflation has tended to be relatively stable, while tradeable inflation has been far more volatile.

Figure 5: *Annual tradeable and non-tradeable inflation, 2000–23.*



Source: *Statistics NZ.*

The largest contributors to the quarterly inflation figure by group were:

- Housing and household utilities, up 0.8% – the cost of renting increased 1.1%, the cost of construction increased 0.7%, and the cost of energy increased 1.9%.
- Food, down 1.2% – fruit and vegetables fell 6.4% in price, grocery food fell 0.7%, and meat, poultry and fish fell 1.1%.
- Miscellaneous goods and services, up 1.5% – this was almost completely driven by the rising cost of insurance, which rose 3.3% overall, with both property and vehicle insurance up 5.4%.

The largest contributors to the annual inflation figure by group were:

- Housing and household utilities, up 4.8% – the cost of rent rose 4.5% and the cost of building rose 3.6%, while local authority rates increased 9.8% and energy costs increased 5.9%.
- Food, up 5.7% – driven by a 6.7% rise in the cost of grocery food and a 7.4% rise in the cost of restaurant and ready-to-eat meals.
- Alcohol and tobacco, up 8.1% – the price of tobacco increased 11.5%, while the price of spirits rose 9%, wine 5.8%, and beer 5.6%.
- Transport, up 3.3% – this was driven by a 11.7% increase in the cost of petrol; however, the cost of passenger transport services fell 7.1%, due to a 2.1% drop in the cost of domestic flights and a 15.1% drop in the cost of international flights.

That inflation is falling steadily is good news for households that have struggled with the rising cost of living in recent years. It may bring some interest rate relief later in the year, in the form of a cut to the Official Cash Rate. It also shows that the cuts to

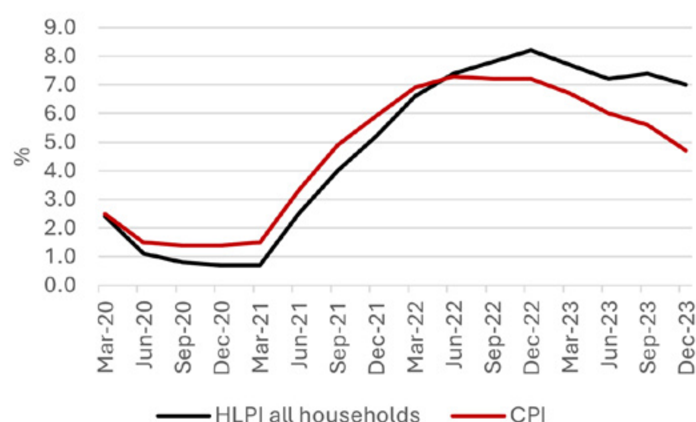
public spending announced by the new government are wholly unnecessary. The government has argued that high levels of Crown expenditure has driven inflation, and so we need to reduce this spending to bring inflation under control. But the data shows that inflation has been steadily falling for a year now and is forecast to come back within the Reserve Bank's target range of 1–3% per annum by the final quarter of this year.

This indicates that there is no economic rationale for the spending cuts, the likely outcome of which will simply be a reduction in the level of services provided to the public. Indeed, because these reductions in spending are being used to fund tax cuts, rather than to drain money from the economy, they will likely have an *inflationary* impact.

Household living costs

The household living-costs price indexes (HLPI) detail changes in the cost of living for different household groups. Unlike the consumers price index (CPI), the HLPI includes interest payments that households make on debt such as mortgages. The HLPI therefore provide a more accurate picture of actual changes in the cost of living for different households than the CPI does.

Figure 6: *Annual household living costs inflation, 2020–23.*



Source: *Statistics NZ.*

Figures for the December 2023 quarter show that the cost of living for all household groups has increased 7% (compared to CPI of 4.7%). Households in the top income quintile continue to experience a slightly sharper increase in the cost of living, at 7.3%. However, these households are also the best positioned to absorb the impact of rising prices, due to their higher incomes. Living costs increased 6.7% for households in the lowest income quintile, 7.1% for Māori households, 6.2% for beneficiary households, and 6.1% for superannuitants.

As we have noted in previous Bulletins, while high-income households have experienced a greater increase in the cost of living recently, over the long run it has

been superannuitants, beneficiaries, and low-income households who have faced the most consistent increase in the cost of living. Since 2008, when the HLPI was first collected, the cost of living has increased 53.7% for superannuitants, 51.4% for low-income households, 51% for beneficiaries, and 48.9% for Māori households. By contrast, high-income households have only experienced a 42.8% increase in the cost of living over this period. The all groups HLPI has risen 46.4%.

Table 2 breaks down the annual increase in living costs for key cost groupings, such as food, housing, and interest payments for the year to December 2023. As Table 2 shows, one of the main drivers in the high cost of living over the past year has come from the huge increase in the cost of interest payments on debt – a result of the Reserve Bank's interest rate hikes. Since the final quarter of 2021, when interest rates were near their low point, the cost of interest payments has increased a whopping 90% for the all-households group.

Table 2: *Annual increase in cost of key HLPI groups, December 2023.*

	Food	Housing & utilities	Health	Transport	Interest payments
All households	5.7%	6.0%	1.3%	4.6%	31.2%
Highest income quintile	5.9%	5.9%	3.5%	3.8%	31.1%
Lowest income quintile	5.6%	6.1%	-2.7%	5.3%	30.4%
Beneficiary	5.5%	5.5%	-5.4%	6.7%	30.1%
Superannuitant	5.3%	6.7%	1.2%	4.1%	30.4%
Māori	5.9%	5.8%	0.2%	5.7%	31.4%

Source: *Statistics NZ.*

In better news, the quarterly data shows that household living costs are on their way down. The HLPI all-households group increased 1.2% from the September quarter, well down from the previous quarterly increase of 2.5%, and below the average increase of 1.9% per quarter for the past two years. Living costs increased 1.3% for the highest income quintile, 1% for the lowest income quintile, 1.3% for Māori households, 1.1% for beneficiaries, and 0.8% for superannuitants.

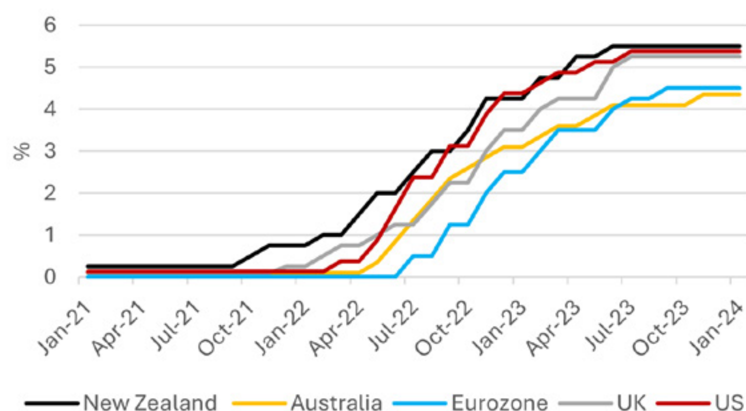
Central bank interest rates

The Official Cash Rate (OCR) remains unchanged since our last Bulletin, at 5.5%. While the Monetary Policy Committee – the arm of the Reserve Bank that sets the OCR – took a slightly more aggressive stance in its November 2023 announcement, forecasting a further rate hike in 2024, the private banks have begun to forecast that the first cut to the OCR will come later this year. Barring an unforeseen economic shock that

either drives inflation up or threatens the stability of the New Zealand economy, the consensus position seems to be that interest rates will fall slightly through 2024 but remain high relative to their 2021 levels. The next OCR announcement will be on 28 February.

As Figure 7 shows, the Reserve Bank has raised rates faster and higher than other wealthy country central banks over the past two years. This contradicts the new government's claim that the Reserve Bank's employment mandate contributed to the higher levels of inflation we have experienced in recent years – an argument the government used to justify the repeal of the employment mandate, under urgency, last year. We discussed this issue in detail in the December 2023 Bulletin.

Figure 7: *Central bank interest rates, 2021–24.*



Source: *Bank for International Settlements.*

Food prices

From November to December 2023, overall food prices were flat after seasonal adjustment. Grocery food fell 0.3% in price; the meat, poultry, and fish group fell 1.0%; vegetables fell 1.2%; and fruit increased 1.7%.

For the year ended December 2023, the cost of food increased 4.8% overall; this continues the steady drop in food price inflation since the high of 12.5% reached in mid-2023. The cost of grocery food increased 5.4% annually, with bread rising 4.7%, breakfast cereals rising 6.2%, and eggs rising 35%. However, cheese fell 16.2% in price, while fresh milk fell 4.2%, due to weak dairy prices globally. The cost of fruit and vegetables rose 4.8% overall, with the cost of fruit increasing 7.4% but the cost of vegetables falling 2.5%. The meat, poultry, and fish group increased a modest 2.3% in price for the year; the cost of pork rose 10.5% and the cost of chicken rose 4%; however, beef and veal fell 0.7% in price and mutton, lamb, and hogget fell 4.6%. Finally, restaurant and ready-to-eat food increased 7.1% in price for the year.

Figure 8: Annual food price inflation, 2021–23.

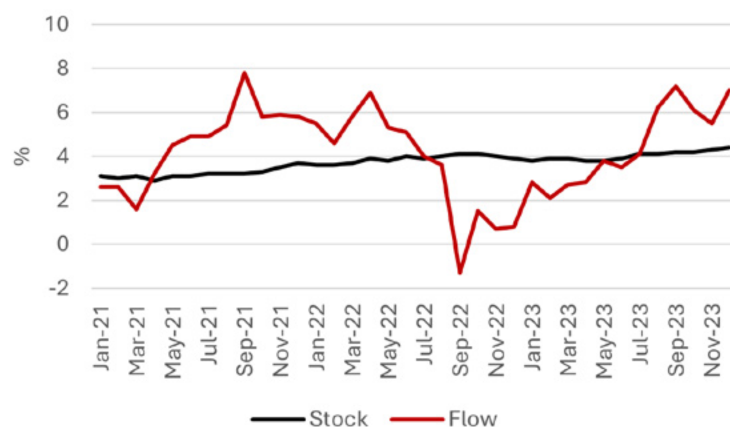
Source: *Statistics NZ.*

Property rent prices

Rent price inflation remained high in December, at 7% annually on the flow measure and 4.4% annually on the stock measure. The flow measure captures price changes of new tenancies while the stock measure captures price changes across the whole rental population. The flow measure usually increases at a faster rate than the stock measure because landlords have more leverage to set higher prices for new tenants than existing tenants and new rentals are more likely to be of higher quality.

On the flow measure, rental inflation has been particularly strong in Auckland (7.1%), Canterbury (7.9%), and the rest of the South Island (8.7%). It has been lower, though still strong, in Wellington (3.7%) and the rest of the North Island (5.1%). The slower rental inflation in Wellington may be because Wellington is not experiencing the same level of migration-driven population growth as other major centres.

Figure 9: Rental price inflation, 2021–23.



Source: *Statistics NZ.*

Fuel prices

The price of fuel fall through November and December 2023. For the week ending 26 January, MBIE's fuel-price monitoring had regular petrol at $2.79 per litre, premium petrol at $2.99 per litre, and diesel at $2.18 per litre. Oil is currently trading around $75–80 per barrel.

Economy

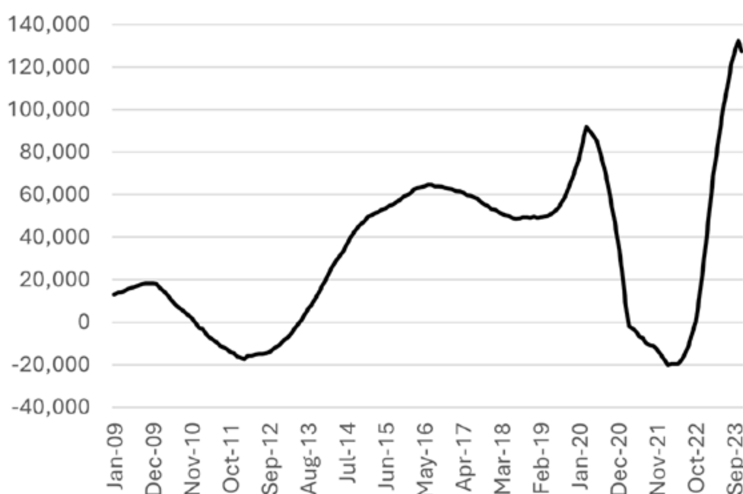
Migration

Estimated international migration has continued its break-neck pace. For the year ending November 2023, there were an estimated 249,500 migrant arrivals, which is significantly above the pre-COVID average of 120,900 and 135% up from the previous year. Migrant departures were also up, estimated to be 122,100, a 29% increase from the previous year. This produced an estimated net migration gain of 127,400 people.

The Reserve Bank has noted that the high level of net immigration is contributing to inflationary pressures. The new government needs to be stepping up its investment in public infrastructure and housing to ensure we can accommodate this population growth. However, recent decisions by the government – from the cancellation of Cook Strait Ferry funding to the scrapping of Three Waters to the back-peddling on medium density residential standards that would enable more housebuilding in urban centres – suggests it is moving in the opposite direction. In the near term, this will put upwards pressure on house prices and rents; in the long-term, it will further sweat our physical infrastructure and our health and education systems.

The net immigration surge has been driven by citizens of India, with an estimated 44,978 net arrivals (compared to 9,824 in 2019), the Philippines, with an estimated 34,268 arrivals (compared to 9,032 in 2019), and China, with an estimated 16,408 net arrivals (compared to 3,210 in 2019). There was an estimated net outflow of 44,500 New Zealand citizens, many of whom are leaving the country for the higher wages and more affordable housing offered in Australia.

Figure 10: *Net annual immigration, 2009–23.*



Source: *Statistics NZ.*

Overseas merchandise trade

For the year ending December 2023, total good exports were valued at $68.7 billion, down $3.3 billion from the year ending December 2022. Total goods imports were valued at $82.3 billion, down $4.3 billion from the previous year. This produced a goods trade deficit of $13.6 billion.

Of the major goods New Zealand exports, the value of milk powder, butter, and cheese exports fell 4.9% to $19.4 billion for the year; exports of meat and offal fell 10.5% to $8.8 billion; timber exports fell 9.9% to $4.7 billion; exports of fruit fell 7.7% to $3.5 billion; and exports of wine fell 5.8% to $2.1 billion. Exports of preparations of milk, cereals, flour, and starch increased 1.2% to $2.5 billion; exports of mechanical machinery and equipment increased 12.3% to $2.4 billion; and fish and seafood exports increased 6.5% to $1.9 billion.

On the import side, the value of petrol imports rose 19.4% to $11.8 billion; imports of mechanical machinery and equipment fell 2.6% to $11.2 billion; imports of electrical machinery and equipment fell 1.8% to $7.3 billion; textile imports fell 13.4% to $3.1 billion; plastics imports fell 20.3% to $2.5 billion; iron and steel imports fell 31.7% to $1.8 billion; and furniture and furnishings imports fell 20.4% to $1.4 billion, which may be due to households pulling back on discretionary spending in the face of higher interest rates.

Of our major trading partners, the value of exports to China fell 8.4% to $18.4 billion; exports to Japan fell 9.1% to $3.8 billion; exports to the Republic of Korea fell 10.3% to $2.4 billion; exports to Singapore fell 6.7% to $1.7 billion; and exports to Indonesia fell 23.5% to $1.6 billion. The value of exports to Australia rose 1.6% to $8.8 billion, while exports to the US rose 6.1% to $8.3 billion. The value of imports from China fell 14.9% to $17 billion and imports from Australia fell 7.3% to $8.9 billion. The value of imports from the US increased 3.7% to $8 billion; imports from the Republic of Korea increased 12% to $6.2 billion; imports from Japan increased 3.6% to $5.6 billion; and imports from Singapore increased 5.5% to $4.5 billion.

Consumer and business confidence

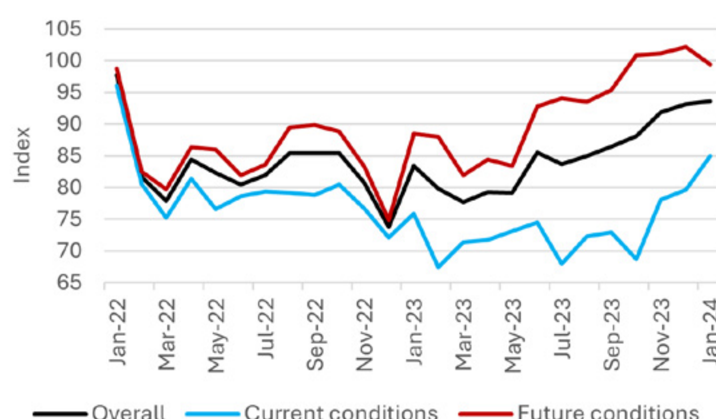
The ANZ–Roy Morgan consumer confidence index rose 1 point from December 2023 to January 2024, to 93.6. A score above 100 on the index demonstrates that consumers have confidence in current and future economic conditions; less than 100, and they are pessimistic. Consumer confidence has been below the 100 mark for over two years.

A net 19% of those surveyed reported it was a bad time to buy a major household item, an improvement from December, but still negative. This question is seen as a leading indicator of consumer confidence and future economic activity. A net 12% of those surveyed reported they were worse off financially than one year ago – again, a slight improvement from the December survey. A net 19% expect to be better off financially

by this time next year, which is down slightly from December. Inflation expectations lifted slightly, with consumers expecting a 4.3% increase per annum over the next two years. This is wildly different from the forecasts of the Reserve Bank and Treasury, which both predict that inflation will fall below 3% before the end of this year.

As Figure 11 shows, over the past year there has been a wide divergence between confidence in current and future conditions. This gap appears to be closing, as consumer confidence in current conditions lifts, albeit very slowly.

Figure 11: *ANZ–Roy Morgan Consumer confidence index, 2022–24.*



Source: *ANZ.*

Business confidence continued to lift in January, likely due to the preference for National-led governments in the business sector. ANZ's index had business confidence rising 4 points to +37 in January. Confidence is in positive territory across all industries, as is the 'own activity' outlook. However, there were notable falls in the own activity outlook in manufacturing, down 7.5 points to +30.8; agriculture, down 12.3 points to +11.5; and construction, down 13.9 points to +11.8. Employment intentions were mixed: the outlook was positive in retail, at +2.0, manufacturing, at +19.6, and services, at +5.5; however, it was negative in agriculture, at -7.4, and in construction at -8.8.

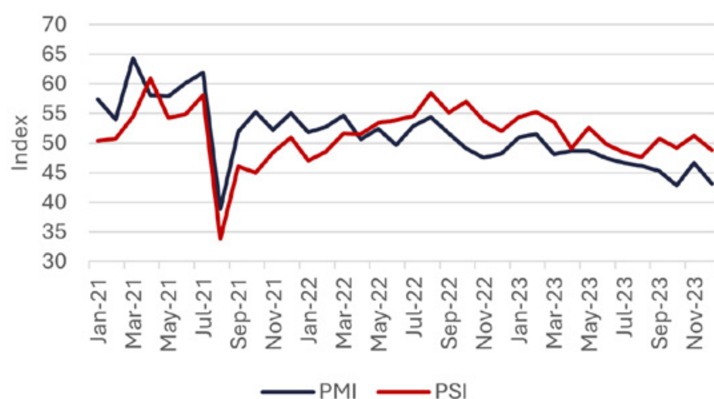
Performance indexes

The BNZ–BusinessNZ performance of manufacturing index (PMI) and performance of services index (PSI) provide an indication of the levels of activity in these sectors. A figure above 50 indicates that activity is generally expanding, while a figure under 50 indicates it is generally declining.

The manufacturing sector continues to report contraction, according to the PMI. The seasonally adjusted PMI for December was 43.1, down 3.4 points from the November reading, driven largely by low production and low demand. The PMI has now been in contraction for 10 consecutive months.

The PSI is also in contractionary territory, having fallen 2.3 points to 48.8 in December. Activity/sales and employment both recorded negative readings, although new orders/business was in positive territory, at 51.2. Across both the PMI and the PSI, the proportion of negative comments in the December surveys outweighed the proportion of positive comments.

Figure 12: *BNZ–BusinessNZ PMI and PSI, 2021–23.*

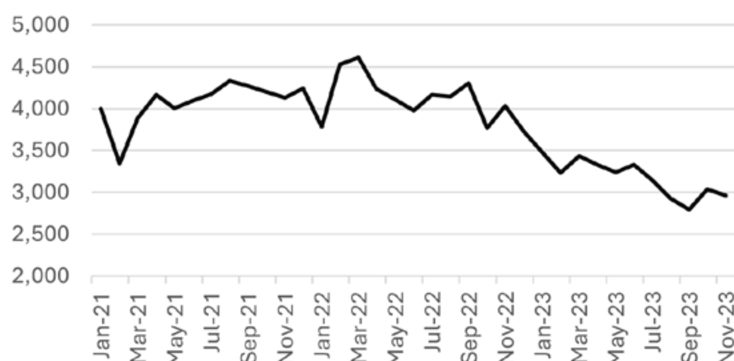


Source: *BusinessNZ.*

Building consents

For the year ended November 2023, there were 38,209 new residential dwellings consented, down 24% from the previous year. Of the major centres, consents were down 27% annually in Auckland, 26% in Waikato, 28% in Wellington, and 19% in Canterbury. Nationally, consents per 1,000 residents have fallen from 9.8 to 7.3 for the year. This downswing in new consents is likely driven by the Reserve Bank's interest rate hikes. Combined with the high level of net immigration over the past year, this fall in building consents will likely put upwards pressure on house prices.

Figure 13: *Monthly residential building consents, 2021–23.*



Source: *Statistics NZ.*

Real estate

As of December 2023, the REINZ house price index (HPI) was up 0.5% from the same time last year, but down 14.7% from its late-2021 peak. It is up an annual compound growth rate of 5.9% from five years ago. The national median house price for December 2023 was $779,830. This is down 0.7% annually. Overall, the monthly indicators show house prices lifting and the housing index climbing northward. This is likely being driven by the combination of high net immigration, the sense that mortgage rates have topped out, and the return of a housing-speculator-friendly government.

Table 3: *REINZ house price index, percentage increases, December 2023.*

	3 months	1 year	5 years*	From peak
National	0.9%	0.5%	5.9%	-14.7%
National excl. Auckland	1.4%	0.4%	7.4%	-11.1%
Auckland	-0.1%	0.5%	4.0%	-19.8%
Wellington	2.4%	2.7%	5.3%	-20.6%

* Compound annual growth rate

Source: *REINZ.*

Government accounts

The interim financial statements of government for the five months ended November 2023 show that the fiscal position is better than forecast. Core Crown tax revenue was $49.1 billion, which is 1.1% above the Treasury's Half-Year Economic and Fiscal Update (HYEFU) forecast. This was due to wage growth being slightly stronger than expected, higher-than-forecast tobacco, alcohol, and fuel duty excises, and a higher-than-forecast number of taxpayers in the country. Core Crown expenses were $56.8 billion, which is 0.6% lower than forecast. This difference is attributed to lower-than-forecast expenditure on core government services, housing and community development, and social security. The operating deficit was 29.1% lower than expected, at $2.8 billion.

Table 4: *Interim government accounts for the five months ended 30 November 2023.*

	Nov 2023	HYEFU forecast	Nov 2022
Core Crown Tax revenue ($m)	49,149	48,605	45,428
Core Crown revenue ($m)	54,933	54,191	49,954
Core Crown expenses ($m)	56,779	57,118	51,727
Net debt (% of GDP)	20.9%	21.4%	19.2%
OBEGAL* ($m)	-2,797	-3,944	-2,438

* Operating balance before gains and losses

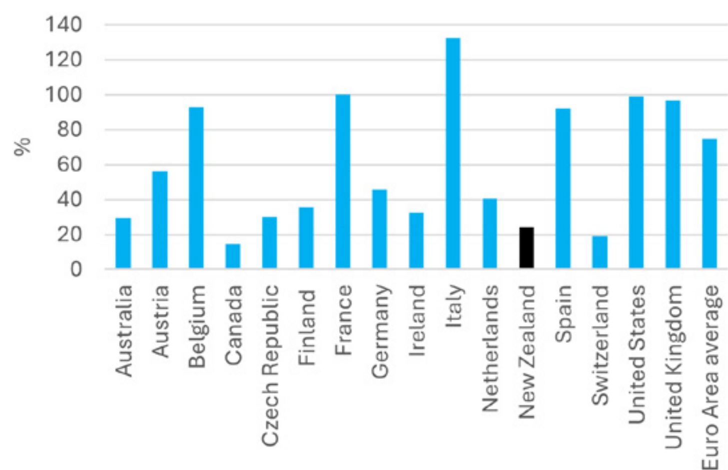
Source: *Treasury.*

Compared to the five months ended November 2022, core Crown tax revenue was $3.7 billion (8.2%) higher. The was largely the result of the relatively strong labour market and strong wage growth, with income tax receipts rising $2.4 billion over the period. As we discussed in our feature article, however, all signs are pointing towards a more difficult outlook for workers in 2024. Other direct income tax revenue was up by $0.8 billion, due to higher deposit interest rates, which the Crown taxes. GST revenue also rose, up $0.3 billion due to high inflation driving higher nominal consumption. Corporate tax revenue was down $0.1 billion from 2022.

Core Crown expenses increased $5.1 billion (9.8%) from the same period last year. The largest changes came from higher debt-servicing costs for government, up $1.4 billion; higher social security costs, up $1 billion due to rising superannuation entitlement rates; higher education costs, up $0.7 billion due to lump-sum wage payments made to primary and secondary school staff following the conclusion of bargaining; and higher core government services costs, up $0.7 billion due to the North Island extreme weather events of early 2023.

Net Crown debt remains low, at 20.9% of GDP ($83.9 billion). This is higher than the year to November 2022, but lower than the HYEFU forecast. This level of debt remains among the lowest in the OECD, which is important to remember in the context of the new government's claims that public debt has risen unsustainably; the data simply doesn't back this claim up.

Figure 14: *Net government debt as a percentage of GDP, 2023/24.*



Source: *IMF. Note that the IMF uses a different measure of net government debt to the New Zealand Treasury.*