Te Kauae Kaimahi

Economic Bulletin

February 2024

NEW ZEALAND COUNCIL OF TRADE UNIONS
union.org.nz

Economic Bulletin

February 2024

Welcome to the February 2024 NZCTU Economic Bulletin. In our monthly feature, we compare New Zealand's economic performance over the COVID-19 period against our performance during and after the global financial crisis. This throws doubt on the validity of the new government's claims that the New Zealand economy has been in a general state of "crisis" for the past year or so. However, this is not to say that household incomes haven't been significantly impacted by the rising cost of living. We therefore take a closer look at how real incomes have fared over the last three years, breaking this down by sector, sex, and industry. This analysis shows that, had real wages continued to grow by their pre-COVID annual average over the past three years, real incomes would be 4.8% higher today.

In our regular updates, we examine the latest economic forecasts, and look at the employment, wage, union membership, and benefit data for the December 2023 period. We also summarise the latest inflation, migration, retail trade, consumer confidence, and housing data and examine the Crown accounts.

For the consumer inflation and household living costs data for the December 2023 quarter, please see the January 2024 Bulletin. For the GDP and balance of payments data for the September 2023 quarter, please see the December 2023 Bulletin.

The CTU has also released a report this week, *Investing in a Growing Population*, which shows that up to an additional $19.9 billion of public infrastructure and services will be needed to service possible population growth over the next four years. This would be additional to the government's planned cuts to public investment of $2.4 billion.

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

Contents

Copyright © New Zealand Council of Trade Unions Te Kauae Kaimahi 2024

ISSN 3021-1891

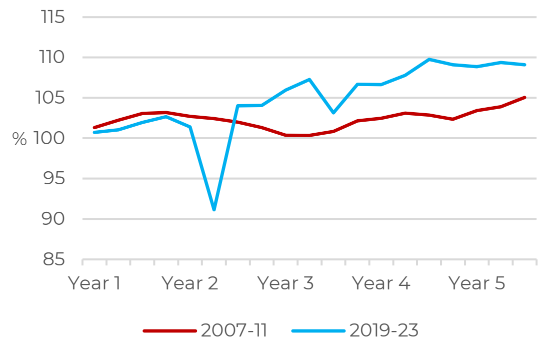
Real wages during the cost-of-living crisis

After several decades of low and relatively stable inflation in New Zealand, and around most of the world, prices began to rise sharply in 2021. Subsequently, the rising cost of living – caused by both inflation and the response to it: rising interest rates – became the major political talking point through 2022 and 2023. It dominated the election and, according to the pollsters, continues to be the number-one issue on Kiwis' minds.

As we have discussed in previous Bulletins, misleading arguments about the causes of inflation and the correct remedy for it have flourished in this environment. The rising cost of living has also fuelled the idea that the New Zealand economy has been in a general state of "crisis" for the past year or so. During the election, the National and ACT parties campaigned on this idea, to great effect.

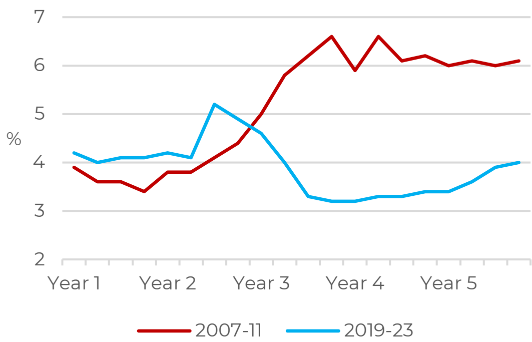
Since forming government, Christopher Luxon and Nicola Willis have asserted that the New Zealand economy is deeply fragile and that the government's books are in trouble. They are using these claims to justify unnecessary cuts to public investment and a raft of anti-worker legislation, such as the repeal of the Fair Pay Agreements Act and the reinstatement of 90-day trials for employers of all sizes. They claim these policies will support productivity and economic growth, though there is no evidence to support this.

Figure 1: Production GDP growth, seasonally adjusted chain volume series (2009/10 prices).



Source: Stats NZ.

Figure 2: Unemployment rate, GFC and pandemic.



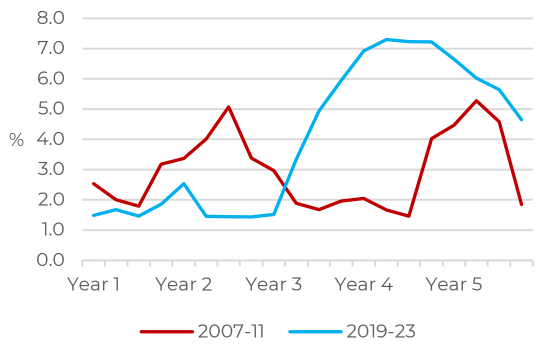
Source: Stats NZ.

We've been sceptical of the idea that the New Zealand economy has been experiencing a significant economic crisis, of the scale experienced, for example, during the global financial crisis (GFC) of 2007–09. Employment has been at record highs through much of the past three years, we have only experienced a shallow technical recession, and real wages have risen in some parts of the private sector from 2022 onwards.

As Figure 1 shows, economic growth was extremely weak for several years following the GFC. By contrast, after the initial sharp contraction in 2020 – due to the lockdowns – GDP growth has been comparatively robust through 2021–23. The story is similar with the unemployment rate. Unemployment began to rise sharply in 2008, climbing to 6.6% by the end of 2009 and remaining elevated thereafter (it didn't fall back below 5% until the end of 2017). By contrast, while unemployment briefly jumped up in the second half of 2020, it fell steadily from there to reach a record-low of 3.2% by the end of 2021.

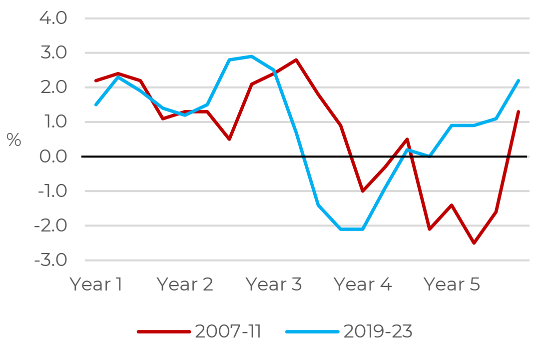
Things are different when we look at inflation. As Figure 3 shows, inflation briefly spiked in mid-2008, before falling sharply as the global economy went into recession. It picked up again in late-2010 but was only above the Reserve Bank's target range for one year. By contrast, after hovering below 2% through 2020, inflation started to rise rapidly from the second quarter of 2021, peaking at 7.3%; it currently remains above the Reserve Bank's target range.

Figure 3: Annual consumer inflation, GFC and pandemic.



Source: Stats NZ.

Figure 4: Real average wage growth, GFC and pandemic.



Source: Stats NZ.

However, for the most part wage growth has been stronger than during the GFC period. This has mitigated, to a degree, the impact of inflation on real wages (nominal wage growth minus inflation). As Figure 4 shows, during the GFC period, real wages fell in 2010 and most of 2011; during the COVID-19 period, real wages fell steeply in 2021, due to the initial shock of inflation, but began to recover from mid-2022 onwards. All up, there were six quarters of negative real wage growth recorded in the GFC period, compared to four quarters of negative real wage growth recorded in the COVID-19 period.

This brief comparison suggests it is misleading to view the recent inflationary period as constitutive of a general economic crisis. On many measures, the economy has performed far better than it did in the years after the GFC. However, this is not to say that the rising cost of living hasn't had a major impact on household incomes – and the figures discussed above don't tell us much about this issue. The next section therefore takes a closer look at how real wages have fared over 2020–23. This helps to illustrate the scale of the income shock that some workers and their whānau have experienced, and why, despite the persistence of economic growth and low unemployment, times have felt tough for many people.

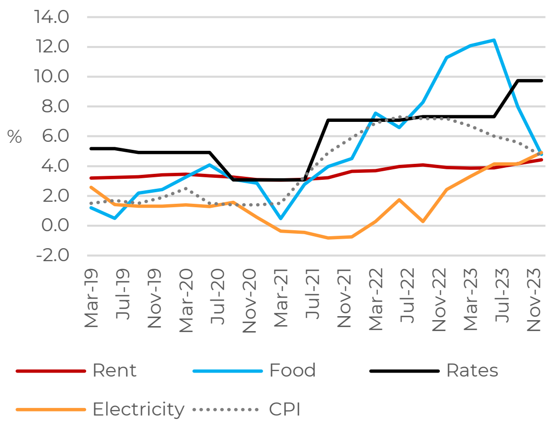
Real wages from 2020–2023

Nominally, wages have risen strongly across the economy over the past two years. But nominal wages don't tell us anything about workers' actual purchasing power. If inflation is outstripping your nominal wage growth, then you will experience a real terms decline in your income. By the same token, if prices are rising rapidly but your wages are increasing even faster, then you will experience a real terms increase in your income.

To examine how real wages have fared over the inflationary period, we use two main measures of inflation. First, the consumers price index (CPI), which measures the rate of change in the price of consumer goods and services. The CPI is a useful measure, but it doesn't account for one of the most important parts of many households' budgets – mortgage interest payments. To get a more accurate picture of the actual increase in the cost of living over the last couple of years, then, we also use the household living-costs price indexes (HLPI), which incorporate mortgage interest costs.

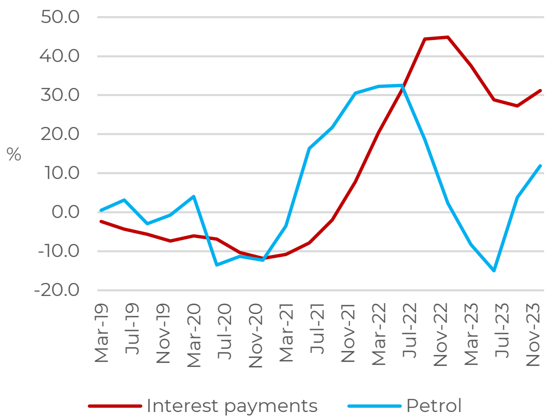
As figures 5 and 6 show, many essential goods and services have risen sharply in price over the past three years. The most spectacular increase is in the cost of interest payments. While interest payment inflation declined through 2020 and 2021 – facilitating the housing market boom – it rose steeply through 2022 and 2023, peaking at 45% per annum. Petrol price inflation has seen similarly steep increases, and food prices have also soared. A recent report from World Vision found that, in New Zealand, the price of a basket of common food items including rice, chicken, and eggs has increased by more than 50% in the past year alone. This is comparable to the rate of food price inflation in countries in sub-Saharan Africa that are experiencing wars and extreme climate-related disruptions to their food supply.

Figure 5: Annual inflation in key goods and services.



Source: Stats NZ.

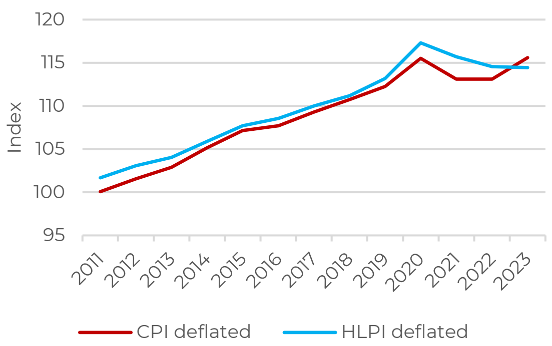
Figure 6: Annual increase in interest payment and petrol.



Source: Stats NZ.

Figure 7 provides a high-level picture of how real incomes have fared on average since 2011. The measure used is average ordinary time hourly earnings, which comes from the [Quarterly Employment Survey](). After recovering from the impact of the GFC, real wages grew at an average rate of 1.6% per annum from 2011–20. Using the CPI-deflated measure, real wages then fell sharply in 2021, were flat through 2022, and began to rise again in 2023. Using the HLPI-deflated measure, real wages fell in 2021, although not as steeply as the CPI-deflated measure (because mortgage rates remained extremely low). However, they have continued to fall through 2022 and 2023 as mortgage rates have risen, meaning three years of real-terms pay cuts. Measured cumulativley, when deflated by CPI average real wages have stagnated in the period from December 2020–23; when deflated by the HLPI they have fallen 2.6% overall.

Figure 7: Annual real wage growth, all sectors.



Source: Stats NZ.

Figure 8: Annual real wage growth (CPI deflator).

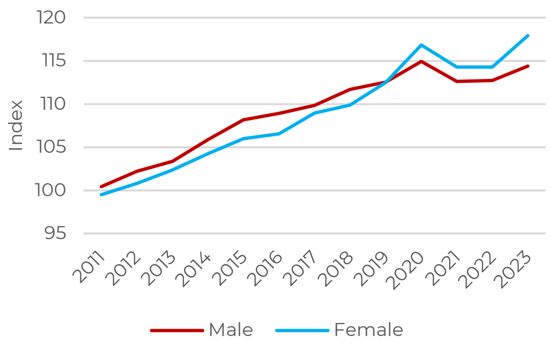
Source: Stats NZ.

When making financial decisions, people tend to be forward looking. For example, first-home buyers will typically expect their income to increase over the period in which they are paying off their mortgage, meaning that their mortgage repayments will become a smaller proportion of their income over time. Our expectations of future income increases can therefore make it even more financially destabilising when our real income starts to fall – not only is our current purchasing power being eroded, the gains that we had budgeted for are also failing to materialise.

Figure 8 helps us to visualise this shock by showing, with the dotted lines, what real wages would have done had they continued to increase at the average annual growth rate of 1.6% that was experienced from 2011–20. If this trend had continued over the past three years, real wages deflated by CPI would've been 4.8% higher than they are now.

Figure 9: Annual real wage growth by sector (CPI deflator). **Figure 10:** Annual real wage growth by sex (CPI deflator).

Source: Stats NZ.



Source: Stats NZ.

Figure 9 shows how real wages fared in the public and private sectors over the high-inflation period. Here, we see quite a divergence. Deflated by CPI, real wages fell in the private sector during 2021, but rose thereafter. Cumulatively, real wages grew 1.1% in the private sector from December 2020–23. By contrast, public sector real wages have declined 2.8% over this period.

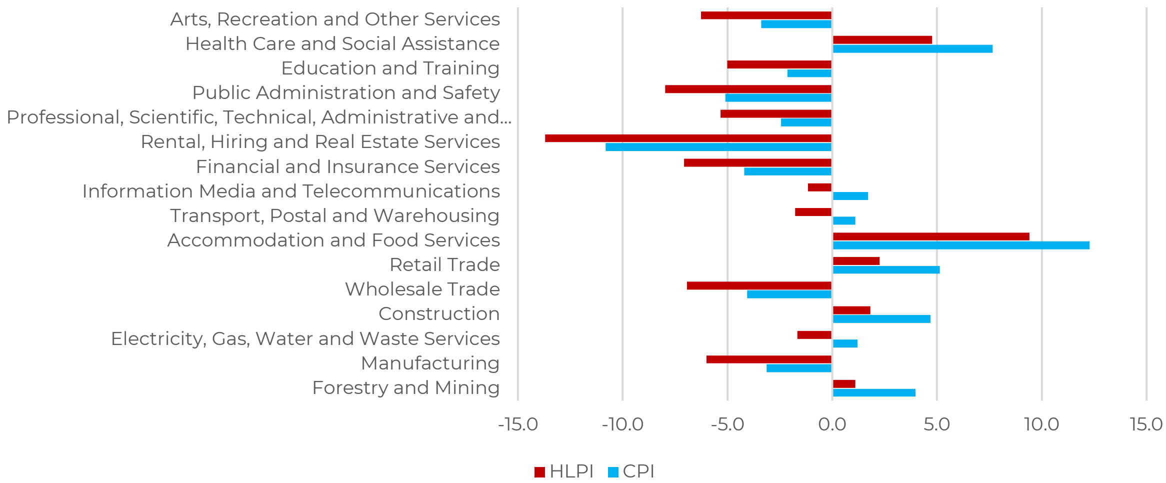
Deflated by the HLPI, private sector wages have fallen 1.8% overall, while public sector wages have fallen 5.6%. It's important to note, however, that public sector wages are, on average, significantly higher than private sector wages: by the end of 2023 the average hourly rate in the public sector was $48.47 (up $6.73 from 2020); in the private sector it was $38.84 (up $6.46 from 2020). The higher average wage in the public sector may reflect both the return on education received by these workers and the high rate of unionisation compared to the private sector.

The real wage track has also diverged by sex over the past three years, as shown in Figure 10. On average, men have experienced a real wage decline of 0.6% when deflated by CPI, or 3.5% when deflated by HLPI, from December 2020–23. By contrast, women have experienced a small increase of 1.1% when deflated by CPI, and a smaller decline of 1.8% when deflated by HLPI. As with the sectoral comparison, though, it is important to note that while real wages have grown more in percentage terms for women than for men, women continue to earn a lower average hourly rate. The average hourly rate for men in the December 2023 quarter was $42.78 (up $6.62 from 2020), while the average hourly rate for women was $38.68 (up $6.43 from 2020). This will partly be the result of the significant increases in the minimum wage over this period, because more women are employed on or close to the minimum wage.

We can also examine real wages by industry categorisation. Figure 11 shows cumulative real wage growth, deflated by both CPI and HLPI, for the 16 industry categories that Stats NZ uses. For the period

December 2020–23, real wages fell across most industries, except for strong increases in health care and social assistance and in accommodation and food services, and smaller increases in retail trade, construction, and forestry and mining. The largest real wage decline was felt in rental, hiring, and real estate services.

Figure 11: Cumulative real wages by industry, 2020–23.



Source: Stats NZ.

Overall, these figures show that most workers have experienced a real-terms pay cut over the past three years. But this hasn't been evenly shared. Low-income households who have to spend the majority of their incomes on essential goods and services (such as those shown in Figure 5) will have been hardest hit by the rising cost of living. So too, first home buyers with large mortgages will have been among the most impacted by the rise in interest rate costs. By contrast, higher-income households, who tend to have more disposable income left over at the end of the week, have been able to absorb the impact of rising prices more easily.

Table 1: Cumulative real wage growth, 2020–23 (December years).

	CPI deflated	HLPI deflated
All sectors (hourly wages)	**0.3%**	**–2.6%**
Public sector	–2.8%	–5.6%
Private sector	1.1%	–1.8%
Male	–0.6%	–3.5%
Female	1.1%	–1.8%
Minimum wage earner (hourly rate)	1.2%	–1.7%

Source: Stats NZ; MBIE; MSD.

In this context, the new government should be focusing on how we can ensure that the impacts of rising prices are borne by those who can most afford them. This includes looking at alternative means of managing inflation – such as using taxes on higher-income earners as a means of reducing demand, rather than relying on the blunt tool of interest rates. It also includes targeted policies to support the incomes of those with the least – the free prescriptions policy of the previous government was an example of this on a small scale.

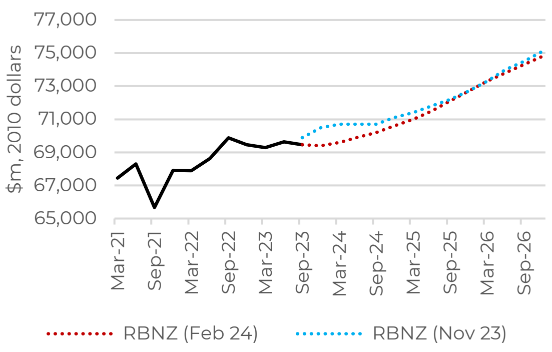
Structurally, the government should focus on lifting wages across the economy – especially in low-wage sectors – and addressing the lack of competition in key industries such as supermarkets, electricity, and banking, which enables firms in these industries to drive up prices. Instead, we have seen the repeal of Fair Pay Agreements, which would have lifted wages; the reintroduction of 90-day trials, a policy that has been proven to provide no economic benefit to workers and only to reduce employment security; and a real-terms cut to the minimum wage.

Economic outlook

The Reserve Bank released its latest economic forecasts in the 28 February [Monetary Policy Statement](#) (MPS). As always, we recommend treating these forecasts with caution. To get a sense of the uncertainty involved in economic forecasting, and the number of assumptions that must be made in calculating the likely future trajectory of the economy, check out chapter 6 of the MPS.

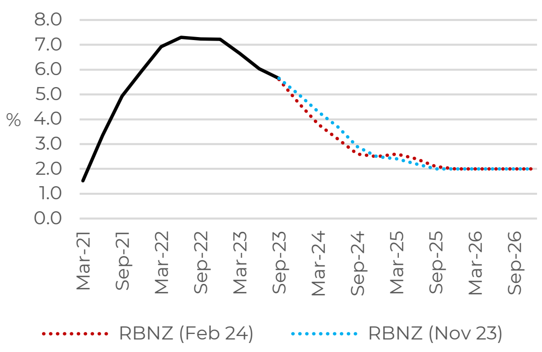
Production GDP is forecast to be relatively slow through 2024, with the Reserve Bank revising its forecast downwards. This is partly the result of poor results for the September 2023 quarter, but also because Stats NZ have updated the GDP figures for the past couple of years using more accurate data that shows the New Zealand economy is smaller than previously thought. The Reserve Bank expects that household consumption will be weak through 2024, due to high interest rates and the weakening labour market; business investment is also forecast to be constrained by high interest rates and slower global growth. The main thing holding the economy up currently is record-high net immigration.

Figure 12: Quarterly production GDP.



Source: RBNZ.

Figure 13: Annual consumer inflation.



Source: RBNZ.

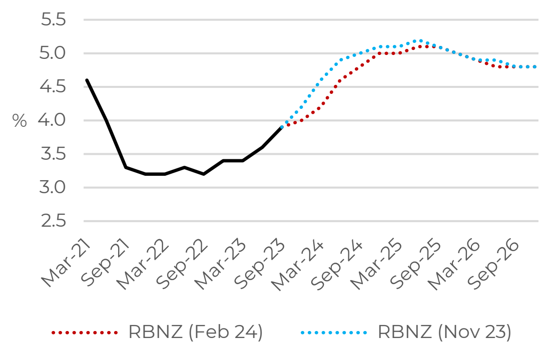
Government consumption is forecast to fall, in line with Treasury's projections from last year. The Reserve Bank expects fiscal policy will be actively contractionary over the next two years. In the context of a weakening economy, this is precisely the wrong way around. Best practice is to run what economists call 'counter-cyclical' policy, with government using its fiscal firepower to support the economy in downturns and withdrawing support in the good times. Instead, the new government has set a 'pro-cyclical' course for fiscal policy; this will only make times tougher, and unnecessarily so.

On the positive side, the Reserve Bank is forecasting that inflation will fall faster than previously expected. This is mostly been driven by the rapid decline in tradeables inflation (inflation in goods and services that are imported or exposed to foreign competition); by contrast, non-tradeable inflation has fallen slower than expected. Headline consumer inflation is forecast to fall within the Reserve Bank's target range of 1–3% by the third quarter of 2024. Inflation expectations also continue to fall steadily, with all but the one-year expectations within the bank's target range.

The unemployment forecast has also improved somewhat, with the Reserve Bank forecasting a slower increase in the unemployment rate through to mid-2025, peaking just over 5%. Rising unemployment is forecast due to higher interest rates putting pressure on household spending and business investment.

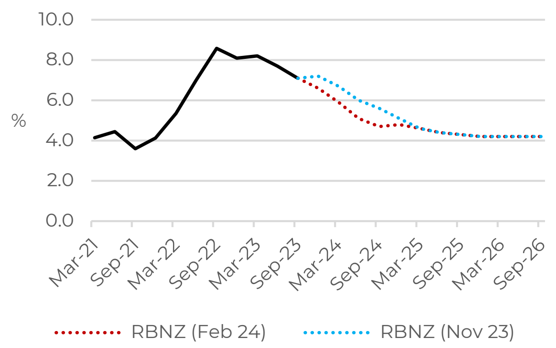
Annual average hourly wages are forecast to grow at a slower level than thought in the bank's November forecasts. However, they are expected to be around 2 percentage points higher than annual inflation, meaning real wage growth over the forecast period.

Figure 14: Unemployment rate.



Source: RBNZ.

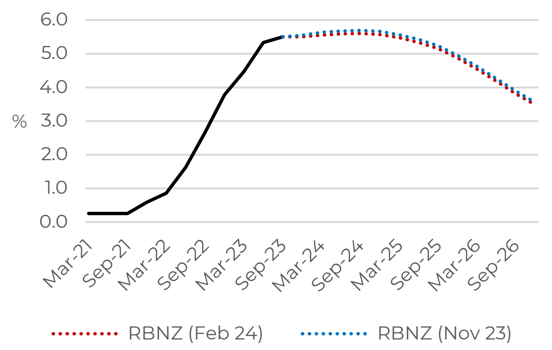
Figure 15: Annual average hourly wage growth.



Source: RBNZ.

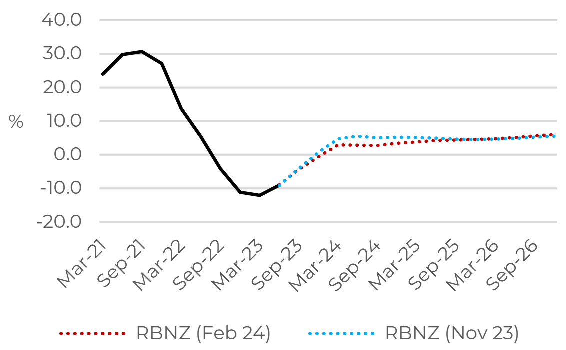
Contrary to the scaremongering from some quarters, the Reserve Bank left the Official Cash Rate (OCR) unchanged in its February announcement. It's forecast track for the OCR remains mostly unchanged from last year, and still includes one further hike. However, many economists expect cuts to the OCR in the second half of 2024. As always, this is all highly contingent on what the economic data ends up looking like for the March 2024 quarter.

Figure 16: OCR track.



Source: RBNZ.

Figure 17: Annual house price growth.



Source: RBNZ; Core Logic.

Finally, house prices are forecast to continue recovering, with prices increasing around 3% during 2024, 4% in 2025, and over 5% in 2026. It hardly bears repeating that this rate of house price growth is unsustainable and socially destructive. One of the key tasks that the government must focus on is increasing the supply of good-quality and affordable housing while supporting real wage growth.

Overall, the Reserve Bank's forecasts are for subdued economic growth over the next year, with unemployment rising and interest rates remaining high, but inflation falling. The pace of net immigration will be an important factor in determining New Zealand's economic performance over the next year, as will the government's fiscal policy, which will be announced in full (we expect) at the Budget on 30 May. As we noted above, the new government appears set on running a pro-cyclical fiscal policy, which is economically unnecessary and harmful.

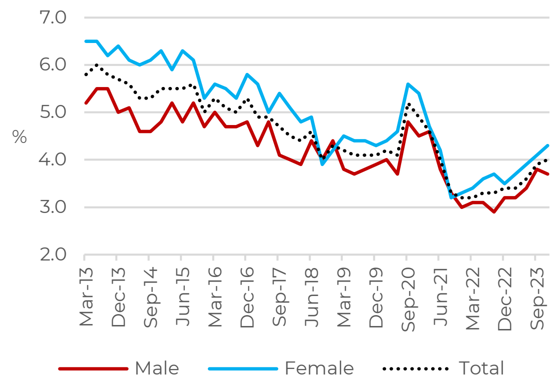
Employment

Employment and unemployment

The jobs market remained relatively robust in the December 2023 quarter, though it has been gradually weakening over the past year. Compared to the September 2023 quarter, the headline unemployment figure rose marginally, from 3.9% to 4%. The underutilisation rate – which accounts for the unemployed, underemployed, and the "potential labour force" – rose from 10.4% to 10.7%. In real terms, this means approximately 122,000 people were unemployed in the December 2023 quarter (up 3,000 from the September quarter), and 123,000 people were underemployed (up from 8,000 in the September quarter). The labour force participation rate and the employment rate both effectively held steady, at 71.9% and 69% respectively.

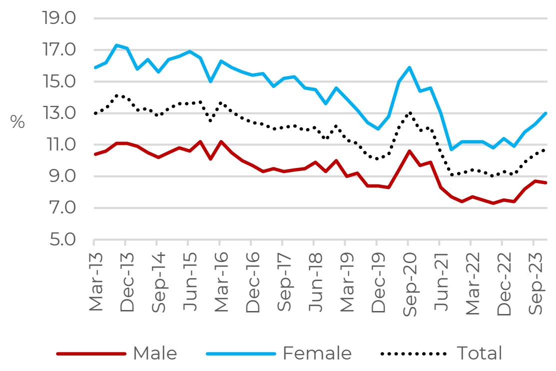
Compared to the September quarter, the female unemployment rate rose 0.2 percentage points to 4.3% and the underutilisation rose 0.7 percentage points to 13%. The labour force participation and employment rates for women both effectively held steady, at 67.4% and 64.5% respectively. The male unemployment and underutilisation rates both fell 0.1 percentage points, to 3.7% and 8.6% respectively. The labour force participation rate declined 0.2 percentage points to 76.5%, and the employment rate declined 0.3 percentage points to 73.6%.

Figure 18: Unemployment rate.



Source: Stats NZ.

Figure 19: Underutilisation rate.



Source: Stats NZ.

Stats NZ does not provide seasonally adjusted figures for employment rates by ethnicity or age group, so we use annual average comparisons instead. For Pākehā, unemployment increased 0.3 percentage points to 3.1% and underutilisation increased 0.7 percentage points to 9.2%. However, the recorded increase in unemployment is within the sampling error so is not statistically significant.

For Māori, unemployment increased 1.6 percentage points to 8% for the year ending December 2023, while underutilisation increased 1.8 percentage points to 16.9%. Because Māori are over-represented in precarious forms of work, the Māori unemployment rate is typically the first to increase when the jobs market softens. While this appears to be the case, the annual increases recorded in December are only slightly larger than the sampling error, and so should be treated with caution.

For Pacific peoples, who are also over-represented in precarious forms of work, unemployment rose 0.4 percentage points to 6.6% and underutilisation rose 1.1 percentage points to 14.2%. However, these increases are both within the sampling error and are therefore not statistically significant.

The NEET rate (people aged 15–24 who are not in employment, education, or training) for the year ending December 2023 is effectively unchanged from the 2022 figures, up 0.1 percentage points to 11.7% (which is within the sampling error). In real terms this represents approximately 76,500 young people who are not in employment, education, or training.

Together with the latest wage data (discussed below), the December 2023 employment figures reflect a gradual weakening of the jobs market. This is likely the result of higher interest rates working their way through the economy – in the form of reduced consumer spending and business investment, and therefore less demand for workers.

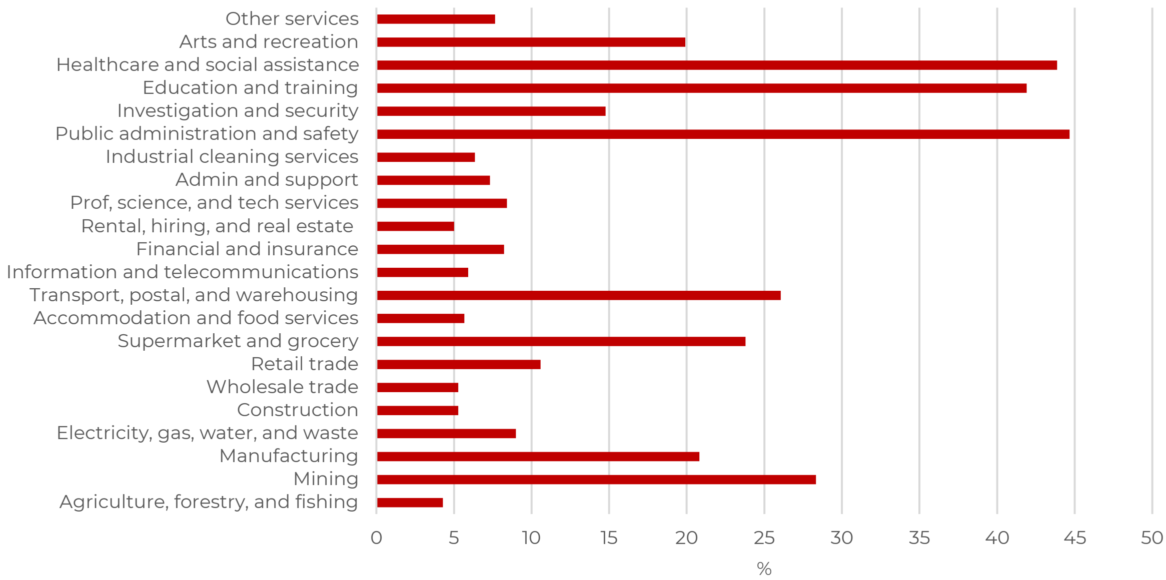
Union membership

For the December 2023 quarter, total union membership was estimated to be 474,000, or 20.2% of the workforce. Estimated union membership has hovered around this level since 2016 when this data series began. This estimate comes from the Household Labour Force Survey; and is likely an overestimation of total trade union strength, as it may include people who belong to other kinds of unions.

Of those stating union membership, an estimated 16.2% of male workers were unionised, compared to 24.4% of female workers. All up, female workers accounted for an estimated 59.6% of the unionised workforce. These ratios have been relatively steady since 2016.

As Figure 20 shows, union density is above 40% in public administration and safety, education and training, and healthcare and social assistance – together, these sectors account for over 60% of total trade union membership. Union density is also relatively high in transport, postal, and warehousing, supermarket and grocery, mining, and manufacturing.

Figure 20: Union density by industry, December 2023.

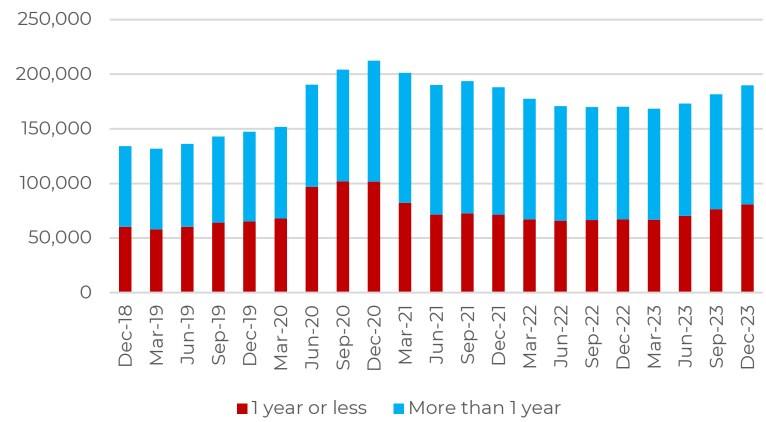


Source: Stats NZ.

Social welfare

The Ministry of Social Development's quarterly benefit statistics show that, at the end of December 2023, 378,711 people were receiving a main benefit. This is up 7% compared to December 2022. The proportion of the working-age population receiving a main benefit increased 0.6 percentage points to 11.9%. Of those receiving a main benefit, 109,698 people were receiving Jobseeker Support – Work Ready, up 11.1% annually, and 80,100 people were receiving Jobseeker Support – Health Condition or Disability, up 12.3% annually; 101,502 people were receiving the Supported Living Payment, up 1.5% annually; and 76,170 were receiving Sole Parent Support, up 4.1% annually.

Figure 21: Jobseeker Support recipients.



Source: Stats NZ.

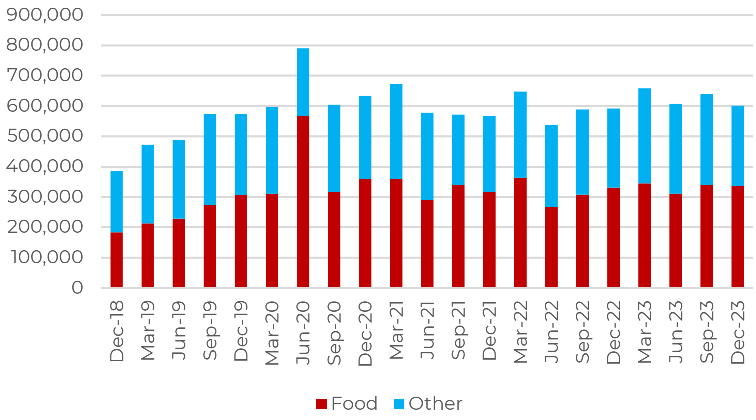
Of total Jobseeker Support recipients, 57.4% had been receiving the benefit for one year or more – this proportion has remained relatively consistent over the past five years. Contrary to the claims of the new government, many of these long-term welfare recipients may be in work, just at levels of income so low that they still qualify for the payment of the benefit.

Of total Jobseeker recipients in December 2023, 56.4% were male, 42.7% female, and 0.8% gender diverse. By ethnic group, 49.4% were Pākehā, 40.7% were Māori, 12.5% were Pacific Peoples, 6% were Asian, and 6% were other ethnicities. By age group, 20.9% were aged 18–24, 31.9% were aged 25–39, 26.8% were aged 40–54, and 20.4% were aged 55–64.

Compared to December 2022, the proportion of the working-age population receiving Jobseeker Support increased marginally in all regions that MSD reports on. Northland and the Bay of Plenty recorded the highest proportion of the working-age population receiving Jobseeker Support, at 10.3% and 8.1% respectively. The Jobseeker Support ratio was 5.9% in Auckland metro, 6.8% in Waikato, 7% in Taranaki, 5.9% in the Central region, 6.8% in the East Coast, 5.1% in Wellington, 5% in Nelson, 4.7% in Canterbury, and 3.7% in the Southern region.

During the December 2023 quarter, there were 601,752 hardship assistance payments, up 1.6% compared to last year. Of this, there were 429,435 special needs grants – which provide one-off payments to help people meet immediate needs. The majority of these were to meet food costs.

Figure 22: Hardship assistance payments.



Source: Stats NZ.

The coalition government has announced that it will be taking a more punitive approach to social welfare, by increasing the use of sanctions. However, as the Welfare Expert Advisory Group made clear in its 2018 report, there is scant evidence that sanctions actually change people's behaviour. Instead, as the WEAG reported, sanctions can be expensive to implement and their use "diminishes trust, causes anger and resentment, and contributes to toxic levels of stress" for welfare recipients.

The government has also announced that it will be indexing benefits to consumer inflation, rather than average wages. As the Ministry of Social Development noted in its advice to government on this decision, "This will lead to [welfare recipients] receiving less income than if main benefits were indexed to wage growth, and in isolation may result in slower progress in achieving child poverty targets as set by the Child Poverty Reduction Act 2018".

Wages

Our feature analysis this month looks at how real wages fared over the past three years. This section provides a simple breakdown of the latest wage data for the year ending December 2023.

Average ordinary time hourly earnings grew by 6.9% for the year, to $40.84. They increased 7.4% in the public sector, to $48.47, and 6.4% in the private sector, to $38.84. For most of the past three years, wages have risen faster in the private sector. This reversal of this trend in 2023 is likely due to the completion of collective bargaining rounds in the public sector last year, particularly in health and education. Average ordinary time hourly earnings increased 6.2% for men, to $42.78, and 7.9% for women, to $38.72.

Table 2: Annual average wage growth to December 2023.

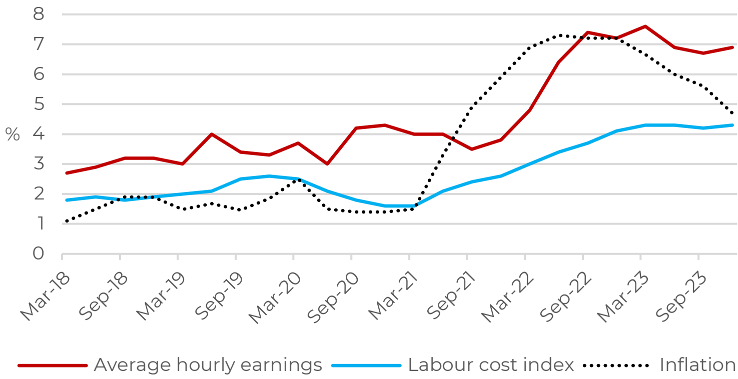
	Nominal	Real (CPI deflated)
All sectors (average hourly wages)	**6.9%**	**2.2%**
Public sector	7.4%	2.7%
Private sector	6.6%	1.9%
Female	7.9%	3.2%
Male	6.2%	1.5%
All industries (average total hourly earnings)	**6.8%**	**2.1%**
Education and training	14.2%	9.5%
Healthcare and social assistance	10.1%	5.4%
Electricity, gas, water, waste	9.2%	4.5%
Construction	8.6%	3.9%
Public administration and saftey	8.2%	3.5%
Arts, recreation, other	7.3%	2.6%
Accomodation and food	6.1%	1.4%
Finance and insurance	6.0%	1.3%
Retail trade	5.4%	0.7%
Transport, postal, warehousing	5.2%	0.5%
Wholesale trade	5.0%	0.3%
Manufacturing	4.5%	–0.2%
Information, media, telecommunications	4.5%	–0.2%
Rental, hiring, real estate	4.4%	–0.3%
Prof, sci, tech, admin, support	2.4%	–2.3%
Forestry and mining	2.4%	–2.3%

Source: Stats NZ.

By industry, average total hourly earnings (which are calculated by dividing total gross earnings by total paid hours) increased 6.8% overall. The largest increases were in education and training, which saw a 14.2% increase in wages, and healthcare and social assistance, which saw a 10.1% increase – as noted above, these large increases reflect the conclusion of collective bargaining rounds. Wages also rose strongly in electricity, gas, water, and waste services, up 9.2% for the year, and construction, up 8.6%. Wage growth was comparatively weak in professional, science, tech, admin, and support services, at 2.4%, and in forestry and mining, at 2.4%. A breakdown of nominal and real wage increases for the year ending December 2023 is provided in Table 2.

The labour cost index (LCI), which measures the price for a fixed quality and quantity of labour – i.e., how much an employer must pay for the same set of skills and hours of labour each year, rather than the income actually received by workers – increased 4.3% annually. This measure covers salary and wage rates and includes overtime. The cost of labour increased 5.7% in the public sector compared to 3.9% in the private sector.

Figure 23: Annual growth in wages and labour costs.



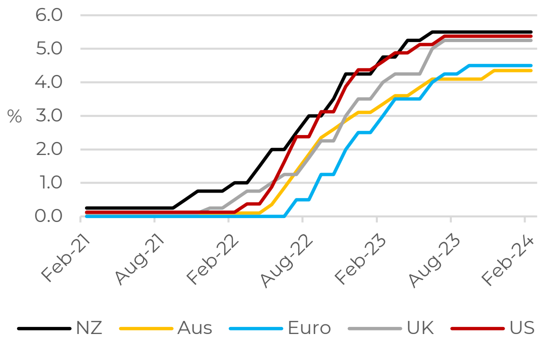
Source: Stats NZ.

Prices

Central bank interest rates

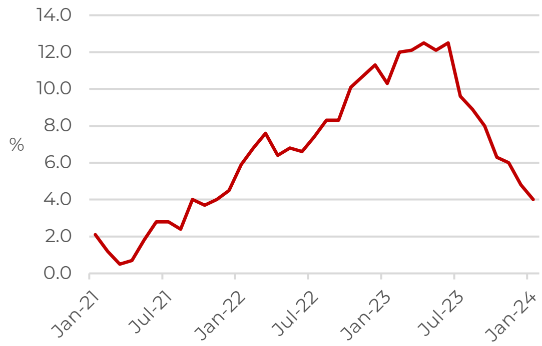
The [Official Cash Rate](#) (OCR) remains unchanged since our last Bulletin, at 5.5%. The Monetary Policy Committee – the arm of the Reserve Bank that sets the OCR – took a slightly softer stance in its February 2024 announcement. As discussed above, a further rate hike is still visible in the Reserve Bank's forecast, but it is highly uncertain whether this will happen. Mortgage rates remain very high, relative to their 2021 levels.

Figure 24: Central bank interest rates.



Source: BIS.

Figure 25: Annual food price inflation.



Source: Stats NZ.

Food prices

[Food price inflation](#) for the year ending January 2024 was 4%. As Figure 25 shows, this continues the rapid decline in food price inflation since mid-2023. The price of fruit and vegetables fell 1.2% for the year, with the price of vegetables down 10.1% and the price of fruit up 11.9%. The price of meat, poultry, and fish increased 1.4% overall, with the cost of beef and veal falling 2.4% and chicken falling 0.9%, while the cost of pork increased 7.3%. The cost of fish and seafood increased 2.9%. Grocery food increased 5.2% overall, making it the main driver of food price inflation. Bread increased 5.2% in price, yogurt increased 16%, and eggs increased 32.3%, while the cost of fresh milk fell 1.7% and the cost of cheese fell 15.5%. Restaurant and ready-to-eat food increased 6.7% in price. The cost of non-alcoholic beverages increased 4.4% overall, while the cost of alcohol and increased 4.8%.

Property rent prices

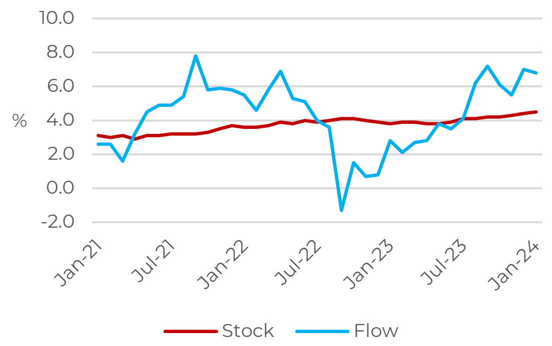
Rent price inflation remained high for the year ending January 2024, with annual inflation of 6.8% on the flow measure and 4.5% on the stock measure. The flow measure captures price changes of new tenancies while the stock measure captures price changes across the whole rental population. The flow measure 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. We examined the drivers of rent price inflation in the [September 2023 Bulletin](#).

On the flow measure, annual rental price inflation has been 6.8% in Auckland, 2.8% in Wellington, 8.9% in the rest of the North Island, 9.2% in Canterbury, and 8.9% in the rest of the South Island. The slower rental inflation in Wellington may be because Wellington is not experiencing the same level of migration-driven population growth as other parts of the country.

Fuel prices

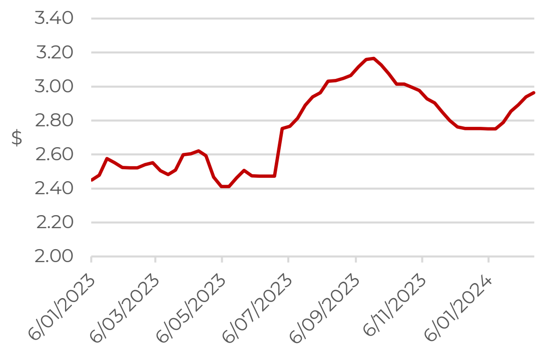
The price of fuel increased again in January and February. For the week ending 26 February, [MBIE's]() fuel-price monitoring had regular petrol at $2.96 per litre, premium petrol at $3.16 per litre, and diesel at $2.28 per litre. Oil is currently trading around $80 per barrel.

Figure 26: Annual rental price inflation.



Source: Stats NZ.

Figure 27: 91 unleaded price per litre.



Source: Stats NZ.

Economy

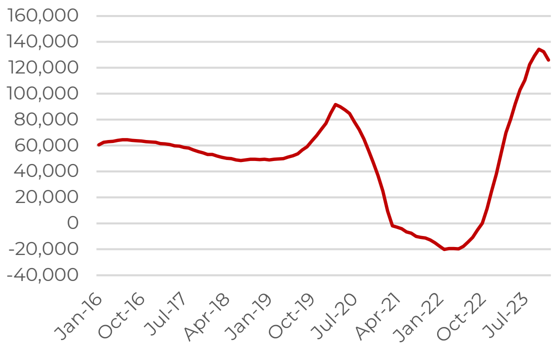
Migration

Net immigration remains very high. For the year ending December 2023, there were an estimated 254,700 migrant arrivals – a record, and more than double the pre-COVID average. Migrant departures were also up, estimated to be 128,700. This produced an estimated net migration gain of 126,000 people. The high level of net immigration has been driven by citizens of India, with an estimated 44,900 net arrivals, the Philippines, with an estimated 34,400 arrivals, and China, with an estimated 15,700 net arrivals.

There was an estimated net outflow of 47,000 New Zealand citizens – again, this is a provisional record, being the largest net outflow of New Zealand citizens ever. Stats NZ also released data on migration with Australia for the year ending June 2023. This showed that, of the New Zealand citizens who departed New Zealand in this period, over half moved to Australia.

The CTU has [released a report]() on the potential public investment gap that could open over the next four years if government does not invest in line with our growing population.

Figure 28: Net annual immigration.



Source: Stats NZ.

Overseas merchandise trade

For the year ending January 2024, total good exports were valued at $68.3 billion, down 5.8% from the previous year. Total goods imports were valued at $82.8 billion, down 8.4% from the previous year. This produced a goods trade deficit of $12.5 billion, which is a decline from the deficit of $15.6 billion recorded in the year ended January 2023.

Of the major goods New Zealand exports, the value of milk powder, butter, and cheese exports fell 6.9% to $19.3 billion for the year; exports of meat and offal fell 10.3% to $8.7 billion; timber exports fell 10.1% to $4.7 billion; exports of fruit fell 7.5% to $3.5 billion; preparations of milk, cereals, flour, and starch fell 1.4% to $2.5 billion; exports of mechanical machinery and equipment increased 10.3% to $2.4 billion; exports of wine fell 9.6% to $2.1 billion; fish and seafood exports increased 7.1% to $1.9 billion; and exports of casein and caseinates fell 13.2% to $1.6 billion.

On the import side, the value of imports of vehicles and vehicle parts fell 2.6% to $11.2 billion; imports of mechanical machinery and equipment fell 3.6% to $11 billion; petrol imports fell 0.1% to $11 billion; imports of electrical machinery and equipment fell 4% to $7.2 billion; textile imports fell 13.7% to $3.1

billion; optical, medical, and measuring equipment imports increased 4% to $2.8 billion; plastics imports fell 21.1% to $2.5 billion; imports of iron and steel fell 31.8% to $1.8 billion; and imports of aircraft and parts increased 74.5% to $1.7 billion.

Of our major trading partners, the value of exports to China fell 9.1% to $18.4 billion; exports to Australia fell 0.9% to $8.7 billion; exports to the US increased 5.3% to $8.2 billion; exports to Japan fell 12.5% to $3.7 billion; and exports to the Republic of Korea fell 14.1% to $2.3 billion. The value of imports from China fell 15.3% to $17 billion; imports from Australia fell 8% to $8.8 billion; imports from the US increased 2.4% to $7.9 billion; imports from the Republic of Korea fell 2.9% to$5.9 billion; and imports from Japan increased 4.2% to $5.6 billion.

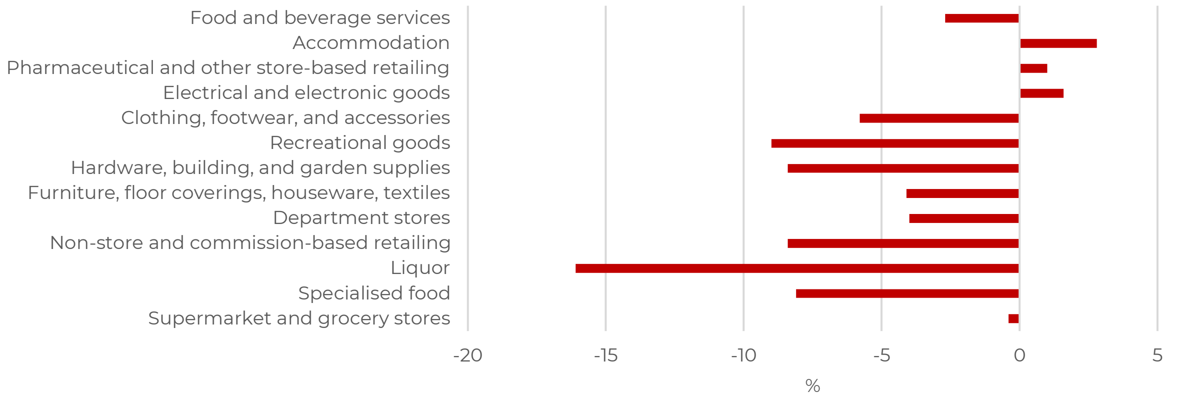
Retail trade

Consumer spending declined in the December 2023 quarter. Measured in 2010 prices, the total volume of seasonally adjusted sales – a measure which strips out seasonal fluctuations and the effect of inflation – was $24.7 billion, down 1.9% from the September 2023 quarter and down 4.1% from the same time one year ago. This is the lowest volume of retail sales since the June 2020 quarter.

Except for pharmaceutical retailing, all industries experienced a decline in sales volumes, compared to the September quarter. The largest declines were in motor vehicle and parts retailing, which fell 2.5%; food and beverage services, which fell 2.4%; fuel retailing, which fell 3.6%; clothing, footwear, and personal accessories, which fell 4%; and recreational goods retailing, which fell 6.2%. Compared to December 2022, the largest declines in retail spending have been on liquor, down 16.1%; recreational goods, down 9%; and hardware, building, and garden supplies, down 8.4%.

This decline in consumer spending – especially in the more discretionary categories – indicates that higher interest rates are eating up a larger proportion of household budgets, thus draining demand out of the economy.

Figure 29: Percentage change in retail sales volumes in core industries, December 2022–23.



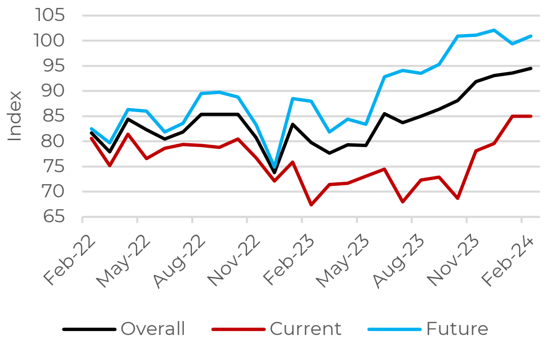
Source: Stats NZ.

Consumer and business confidence

The ANZ–Roy Morgan consumer confidence index rose 1 point from January to February 2024, to 94.5. Confidence in current conditions remains pessimistic, at 85, while confidence in future conditions is narrowly optimistic, at 100.9. 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 18% of those surveyed reported it was a bad time to buy a major household item, a slight lift from January, 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, but a net 18% expect to be better off financially by this time next year.

Figure 30: ANZ–Roy Morgan Consumer confidence index.



Source: ANZ.

Business confidence was down slightly, compared to January, but is still in positive territory, at 34.7. ANZ's index had confidence in positive territory across all industries. In retail, the "own activity" outlook fell 9.5 points to 14 but lifted in all other industries. In manufacturing, it increased 1.1 points to 31.9; in agriculture it increased 9.3 points to 20.8; in construction it increased 12.4 points to 24.2; and in services it increased 6.6 points to 37.4. Employment intentions remain mixed, though. The outlook is negative in retail (down 6 points to -4), agriculture (down 9.3 points to -16.7), and construction (down 3.3 points to -12.1). However, it is positive in manufacturing (unchanged at 19.6) and services (up 7.2 points to 12.7).

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.

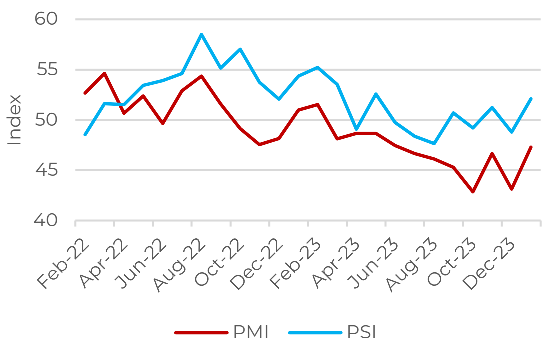
For January 2024, the manufacturing index continued to indicate contraction, at 47.3 (up 3.9 points from December 2023). The PMI has now been registering a contraction for 11 consecutive months, driven by low demand for new orders and low production.

The PSI, however, lifted into expansionary territory in January, up 3.3 points from December 2023, driven by a lift in activity/sales and new orders/business. Across both the PMI and the PSI, the proportion of negative comments in the surveys continues to outweigh the proportion of positive comments.

Building consents

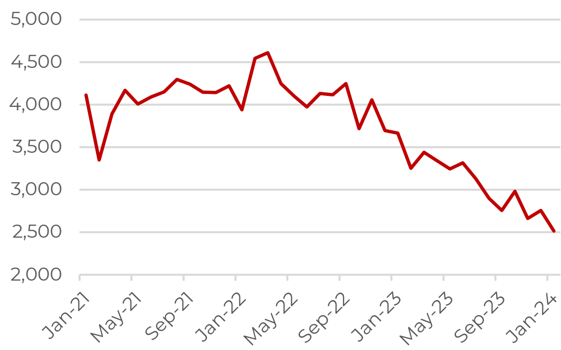
For the year ended January 2024, there were 36,453 new residential dwellings consented, down 26% from the previous year. Of the major centres, consents were down 28% annually in Auckland, 27% in Waikato, 41% in Wellington, and 24% in Canterbury. Nationally, consents per 1,000 residents have fallen from 9.6 to 7.0 for the year. This downswing in construction is being driven by the Reserve Bank's interest rate hikes. This is concerning in the context of rapid population growth, which will likely put upwards pressure on house prices. In this respect, in dampening construction activity, the Reserve Bank's monetary policy may be having the perverse effect of driving the cost of housing higher.

Figure 31: BNZ–BusinessNZ PMI and PSI.



Source: BusinessNZ.

Figure 32: Monthly residential building consents.



Source: Statistics NZ.

Real estate

As of January 2024, the REINZ house price index (HPI) was up 2.2% from the same time last year, but down 14.4% from its late-2021 peak. It is up an annual compound growth rate of 6% from five years ago. The national median house price for December 2023 was $760,00, which is down 0.7% annually. Overall, the monthly indicators continue to show house prices lifting across most of the country.

Table 3: REINZ house price index, percentage increases, January 2024.

	3 months	1 year	5 years*	From peak
National	0.1%	2.2%	6.0%	–14.4%
National excl. Auckland	0.8%	2.0%	7.4%	–10.7%
Auckland	–1.0%	2.4%	4.2%	–19.7%
Wellington	2.0%	4.6%	5.1%	–20.9%
Canterbury	0.4%	2.8%	8.5%	–6.1%

** Compound annual growth rate*

Source: REINZ.

Government accounts

The interim financial statements of government for the seven months ended January 2024 show that the fiscal position remains relatively robust. Core Crown tax revenue was $69 billion, which is 1.1% below the Treasury's Half-Year Economic and Fiscal Update (HYEFU) forecast. Corporate tax revenue was $0.5 billion below forecast, while GST revenue was $0.2 billion below forecast, suggesting slower consumer spending. The lower-than-forecast tax revenue was partially offset by higher-than-forecast interest revenue of $0.2 billion, which reflected rising yields on foreign currency bonds owned by the government.

Core Crown expenses were 1.3% lower than forecast, at $78.6 billion. This difference is attributed to lower expenditure in core government services (partly due to delays in spending related to the North Island Weather Events of 2023), social security and welfare, housing and community development, transport and communications, and health.

The OBEGAL (operating balance before gains and losses) deficit was $3.7 billion, which is 1.9% lower than forecast at HYEFU. Finally, the net debt position was also slightly lower than forecast, at 20.7% of GDP. This was largely because the value of Crown financial assets exceeded that forecast.

Table 4: Interim government accounts for the seven months ended 31 January 2024.

	Jan 2024	HYEFU forecast	Jan 2023
Core Crown tax revenue ($m)	69,005	69,757	64,674
Core Crown revenue ($m)	76,824	77,444	71,274
Core Crown expenses ($m)	78,575	79,601	71,651
Net debt (% of GDP)	20.7%	21.4%	18.9%
Operating balance ($m)	–3,665	–3,726	–2,364

Source: Treasury.

Compared to the seven months ended January 2023, core Crown tax revenue increased 6.7%. This was mostly driven by the relatively robust labour market and nominal wage growth, with income tax receipts rising 13.2% over the period. Other direct tax revenue was up 71.9%, due to higher deposit interest rates, which the Crown taxes. GST revenue increased 3.5% due to high inflation driving higher nominal consumption. Corporate tax revenue was down 6.5%.

Core Crown expenses were 9.7% higher than the same period last year. The largest changes came from higher debt-servicing costs for government, which rose 47.2%; higher social welfare costs, mainly driven by the 10.9% increase in NZ Superannuation payments; higher education costs, up 11.1% mainly due to wage increases and lump-sum payments made following the conclusion of collective bargaining; and higher core government services costs, up 19.7% due to the North Island Weather Events of early 2023.

The OBEGAL deficit was $1.3 billion higher than the same time last year, and net Crown debt as a percentage of GDP also rose marginally, up from 18.9% to 20.7%. As always, however, it is worth remembering that New Zealand's level of government debt is extremely low by international standards – there is no fiscal crisis, despite the new government's claims to the contrary.