Te Kauae Kaimahi

Economic Bulletin

April 2024

NEW ZEALAND COUNCIL OF TRADE UNIONS
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NZCTU Te Kauae Kaimahi

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Welcome to the April 2024 NZCTU Economic Bulletin. In our monthly feature we look at the link between economic insecurity and support for populist political parties. Populism is typically defined as a political approach that pits an "authentic people" against "the establishment" or "elite". Recent economic research has shown that economic insecurity (such as the experience of unemployment or exposure to deindustrialization) increases support for populist politicians. In turn, populist governments are found to produce worse economic outcomes than non-populist alternatives.

Over the last decade, populist governments and leaders have come to power in many countries – from Donald Trump in the United States to Jair Bolsonaro in Brazil to Viktor Orbán in Hungary. Although New Zealand has so far avoided a populist rupture, we may be increasingly vulnerable to one. The widespread sense of economic insecurity that many New Zealanders experience provides fertile ground for populist politics to flourish. Economic insecurity has been a reality for many New Zealanders for decades, and the recent cost-of-living crisis has only exacerbated this. In this context, there is a pressing need to restore economic security to New Zealanders.

In our regular updates, we look at the latest employment and wage data. Taken together with the poor GDP figures reported on last month, this data shows that the economy is in bad shape. Unemployment is rising, wage growth is slowing, and inflation, while trending down, remains elevated. Real wages have been stagnant or falling for three years now, meaning that workers are, on average, poorer now than they were in 2021.

We examine the latest batch of consumer inflation and household living costs data. This shows that international factors are mostly driving the decline in inflation, rather than the Reserve Bank's interest rate hikes. Working against this are large increases in insurance costs and local body rates, which are keeping domestic inflation elevated. We also summarise the latest migration, trade, consumer confidence, and housing data, and look at the government accounts. For the latest GDP data, please see the March Bulletin.

The government will be releasing its first Budget on 30 May. The CTU will produce a summary analysis of what the Budget means for working New Zealanders on the day and will follow that up with more detailed analysis in the week following.

Finally, on 8 May, the CTU launched Reimagining Aotearoa Together, a long-term project that will set out an alternative vision for Aotearoa that looks beyond the narrow confines of the policy straight jacket adopted by successive governments. The CTU will be reaching out to workers, community allies, NGOs and interested New Zealanders to develop transformative policies that get to the heart of the change that is needed.

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

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Economic security has surprising benefits

For more than a decade now, much of the world has been buffeted by "populist" political ruptures. For the most part, the successful populist challenges to the status quo have come from the right-wing – think the Brexit vote and the election of Donald Trump in 2016.

Populism is often defined as a political approach that pits an "authentic people" against "the establishment" or "the elite". In Trump's United States, for example, the authentic people are framed as "ordinary", white Americans, while the corrupt elite are the shadowy officials and bureaucrats of the "deep state". "Elites" are generally perceived as those who are holding a country back or forcing unwanted changes on the population. Populist parties also often focus attention on immigration as the source of a country's problems and stir up anti-migrant sentiment in response.

So far, New Zealand has been relatively immune to the rise of populism. But this may not hold for much longer. In recent years, we have seen populism creeping into New Zealand political life, particularly in reaction to the public health measures taken during the COVID-19 pandemic. More structurally, New Zealand has the right set of economic conditions for populism to flourish – in particular, the widespread sense of economic insecurity that many New Zealanders' experience.

A recent paper from the London School of Economics (LSE) establishes a strong connection between economic insecurity and the rise of populism across Europe. This paper builds on other research that has linked populism to regional economic decline and globalisation. What these studies show is that economic insecurity increases support for populist parties and figures. Famously, the US rustbelt helped to deliver Trump the presidency in 2016, while the northern regions of England that had been deindustrialized in the 1980s and 1990s helped to deliver the Brexit vote.

The LSE researchers use three indicators to measure economic insecurity:

1. Whether the voter has been unemployed for some time in the past five years.
2. Whether the voter is experiencing income difficulties (i.e., finds it hard to live on their current income).
3. Whether the voter is in an industry that is exposed to globalisation.

Across the 30 countries examined by the researchers, it was found that "economic insecurity causes faith in traditional parties to wane, inducing voter disillusion. In turn, this economic insecurity-induced disillusion sparks support for populist platforms". Economic insecurity was also found to reduce trust in public institutions and politicians generally, leading to voter turnout decline.

Populist economic policies aren't a very coherent mass, but they tend to focus on the need to break with the status quo while ignoring the advice of those who may have relevant experience and expertise. Liz Truss – who railed against the supposed "Left Economic Establishment" and the "Anti-Growth Coalition" – nearly broke Britain with her demands for unfunded tax cuts. During the Brexit debate, Michael Gove, who helped run the Leave campaign, famously said that people in the UK were "sick of listening to experts". Economically, the departure from the EU has been very damaging to the UK. The same is true with other populist experiments such as Bolsonaro's Brazil.

Indeed, a recent paper in the *American Economic Review* finds that populist governments persistently produce worse economic outcomes than non-populist alternatives. Looking at more than 100 years of data and covering 51 populist leaders, the authors find that, once a populist comes to power, countries underperform "compared both to their long-run growth path and relative to global growth". On average, per capita GDP and consumption are 10% lower than they otherwise would have been 15 years after a populist comes to power. The authors also find that populists do not tend to deliver improved economic and social outcomes for the "common people" they claim to represent, and that populism is associated with "a significant decline in judiciary independence, election quality, and press and media freedom".

Socially, populist governments have also tended to erode civil liberties and the role of organisations such as trade unions. In Hungary, where the populist Viktor Orbán has ruled since 2010, workers' rights have been dismantled and the right to strike has been lost. In Argentina, the populist president Javier Milei is looking to limit the right to strike, the right of assembly, and the right to collective bargaining. He also wants to alter how trade unions collect payments, workers' healthcare provision, and basic rights such as maternity leave.

It is therefore firmly in working peoples' interests to prevent the rise of populism in New Zealand. Unfortunately, the indications are that populist sentiments are on the rise in New Zealand. In 2024, Ipsos included New Zealand in its global populism survey for the first time. Concerningly, 54% of Kiwis agreed that "To fix New Zealand, we need a strong leader willing to break the rules" – a good measure of a person's support for populist policies. This was higher than the UK and Australia, and much higher than the US (40% agreement). In addition, 58% of New Zealanders agree with the statement that "New Zealand society is broken" and 60% believe that "New Zealand is in decline".

We have also seen large increases in the level of public distrust in many public institutions. The COVID-19 response saw huge increases in public distrust of doctors and medical professionals. Conspiracy theories – which are strongly correlated with populist politics – about the virus and the vaccine proliferated. And over recent years, New Zealanders' trust in media has also collapsed. In 2020, 53% of respondents reported that they trusted news most of the time. In the 2024 survey, this had fallen to just 33%.

Based on the international research discussed above, these survey results suggest that the increasing economic insecurity many New Zealanders experience may be pushing people towards populist ideas. Recently, the cost-of-living crisis has put immense stress on many households' incomes. A recent survey found that 70% of Kiwis regularly worry about money, and a growing number do not have confidence in their job security. But these stresses have come on top of the longer trends of the past 40 years: the end of the fully employed society, the stripping away of workers' rights and union coverage, rising inequality, and regional economic decline in some parts of the country.

All of this suggests that New Zealand society is becoming a more hospitable environment for populism. This is an outcome we all have an interest in avoiding.

Reducing the risk of a populist turn requires us to work on both the problems and the solutions. This means working to make sure that New Zealanders have more economic security, not less. It means creating good jobs in Aotearoa, where work is valued and not just seen as a cost to be managed. It means looking after people properly when they need it, and not simply tipping them into poverty when unemployment rises – as it is right now – or when structural change occurs. It means lifting the minimum wage to match inflation, rather than making low-income families pay for a cost-of-living crisis they didn't create. Above all, it means having an economic plan that puts working people, their families, and their communities at its heart.

Politicians also have a responsibility to avoid stoking ideas that have no basis in fact – such as claims that we have an "obstruction economy" and a "Vetocracy" that has "held you back and [held] our country back" – comments the Minister of Finance recently made. It means listening to experts when they find, through robust research, that 90-day trials don't work, rather than repeating the unfounded idea that "Extending 90-day trial periods to all employers gives businesses the confidence to hire new people" – as the Minister for Workplace Relations did. It means being honest.

We have the Budget on 30 May. Like all budgets, this will be an opportunity for the government to begin making the necessary investments to help restore economic security to New Zealanders and to increase trust in public institutions. If the government neglects to use this opportunity, it will only be making New Zealand more vulnerable to a populist future.

But the challenges we face are deeply entrenched and long-standing. Restoring economic security for New Zealanders will be a long-run project. It is a project that requires us to work together to collectively reimagine our country and our future. This is why the CTU has launched Reimagining Aotearoa Together, a long-term project that will set out an alternative vision for Aotearoa that looks beyond the narrow confines of the approach that has been adopted by successive governments over the past four decades.

NZCTU Te Kauae Kaimahi

Key data for trade unionists

Table 1: Economic indicators, annual percentage change.

	GDP	CPI	Wages, public sector	Wages, private sector	Unemployment	Official Cash Rate
Jun 2023	3.0	6.0	4.1	7.7	3.6	5.5
Sep 2023	1.3	5.6	5.4	7.1	3.9	5.5
Dec 2023	0.6	4.7	7.4	6.6	4.0	5.5
Mar 2024	n/a	4.0	6.2	4.8	4.3	5.5

Source: Stats NZ, RBNZ. GDP is production measure, seasonally adjusted, real. Wages are average ordinary time hourly earnings.

Table 2: Economic forecasts, annual percentage change, March years.

	GDP			CPI			Wages*			Unemployment			Official Cash Rate**		
	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average
Mar 2024	0.5	0.3	0.3	4.0	4.0	4.0	4.8	5.2	4.8	4.3	4.3	4.3	5.5	5.5	5.5
Mar 2025	1.9	1.6	1.0	2.6	2.3	2.5	4.6	5.1	3.9	5.0	5.1	5.3	5.5	5.3	5.3
Mar 2026	3.2	2.9	2.7	2.0	2.1	2.1	4.2	3.9	3.4	4.9	4.9	5.1	4.5	3.9	3.9

Source: RBNZ (MPS February 2024), Treasury (HYEFU 2023), ANZ, ASB, and BNZ. The Average measure is the average of forecasts from the RBNZ, Treasury, ANZ, BNZ, and ASB.

* The RBNZ and Average wage forecasts are private sector average ordinary time hourly earnings; the Treasury wage forecast is all sectors average ordinary time hourly earnings.

** Treasury is 90-day interest rate, which closely tracks the OCR; the Average measure is the average of the OCR forecasts from the RBNZ, ANZ, BNZ, and ASB.

Table 3: Annual wage growth to March 2024 (percentage increase).

	Nominal	Real
All sectors/sex (average ordinary time hourly wages)	**5.2**	**1.2**
Public sector	6.2	2.2
Private sector	4.8	0.8
Female	6.9	2.9
Male	3.8	-0.2
All sectors/sex (average ordinary time + overtime hourly wages)	**5.2**	**1.2**
Public sector	6.3	2.3
Private sector	4.7	0.7
Female	7.0	3.0
Male	3.7	-0.3

Source: Stats NZ. Real is deflated by consumers price inflation for the year ending March 2024.

Employment

Employment and unemployment

The jobs market continues to weaken. Unemployment increased from 4% in the December 2023 quarter to 4.3% in the March 2024 quarter. Unemployment has now risen almost a full percentage point from the same time last year. Women, Māori, and Pasifika workers have experienced the sharpest increase in unemployment over the past year, as discussed below.

The underutilisation rate – which accounts for the unemployed, underemployed, and the potential labour force – rose from 10.7% in the December 2023 quarter to 11.2%. Compared to the same time last year, underutilisation is up 2.1 percentage points.

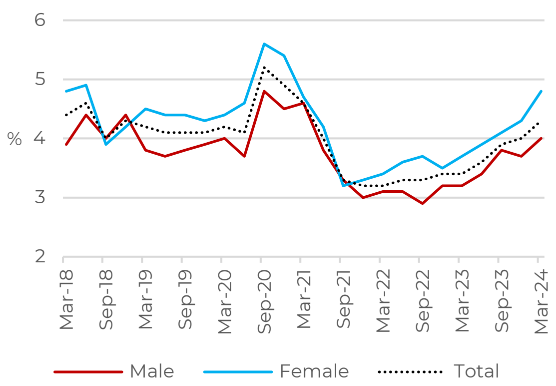
In real terms, this means approximately 134,000 people were unemployed in the March 2024 quarter (up 31,000 from March 2023), and 119,000 people were underemployed (up 26,500 from March 2023).

Labour force participation fell from 72.1% to 71.5%. The employment rate fell from 69.7% to 68.4%.

Compared to the same time last year, the female unemployment rate has risen 1.2 percentage points to 4.8% and the underutilisation rate has risen 2.4 percentage points to 13.3%. Labour force participation is down to 67.3%, compared to 67.7% one year ago. The employment rate is 64.1%, compared to 65.3%.

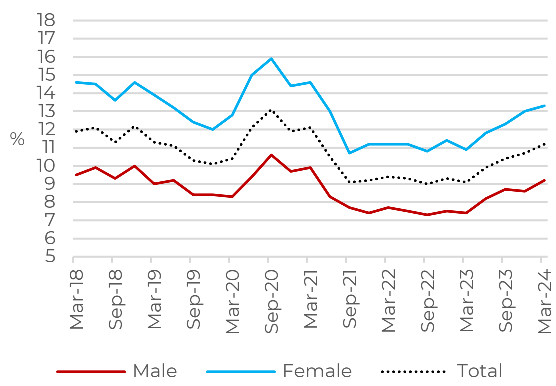
The male unemployment and underutilisation rates have also increased, though by slightly less. Male unemployment rose from 3.2% in March 2023 to 4% in March 2024, while underutilisation rose from 7.3% to 9.2%. The labour force participation rate fell from 76.6% to 75.8%, while the employment rate fell from 74.1% to 72.8%.

Figure 1: Unemployment rate by sex.



Source: Stats NZ.

Figure 2: Underutilisation rate by sex.



Source: Stats NZ.

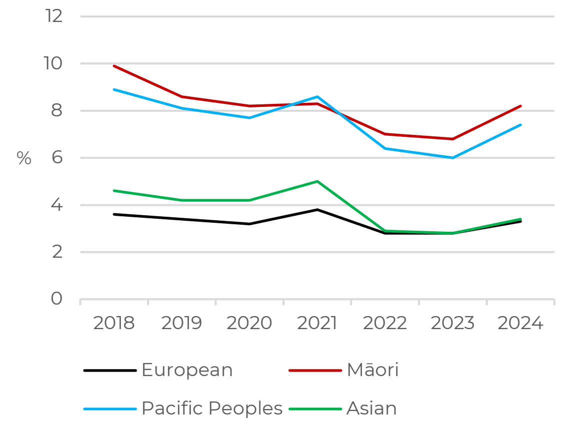
Stats NZ does not provide seasonally adjusted figures for employment rates by ethnicity, so we use annual average comparisons instead. For Pākehā, unemployment increased from 2.8% to 3.3% for the year to March 2024 and underutilisation increased from 8.5% to 9.8%.

For Māori, unemployment increased 1.4 percentage points to 8.2% and underutilisation increased 2.2 percentage points to 17.4%. Because Māori are over-represented in precarious forms of work, the Māori unemployment rate typically increases faster than the Pākehā unemployment rate when the jobs market softens, as shown by Figures 3 and 4 below.

For Pacific peoples, who are also over-represented in precarious forms of work, unemployment was estimated to have increased 1.5 percentage points to 7.4% and underutilisation 2.5 percentage points to 15.3%.

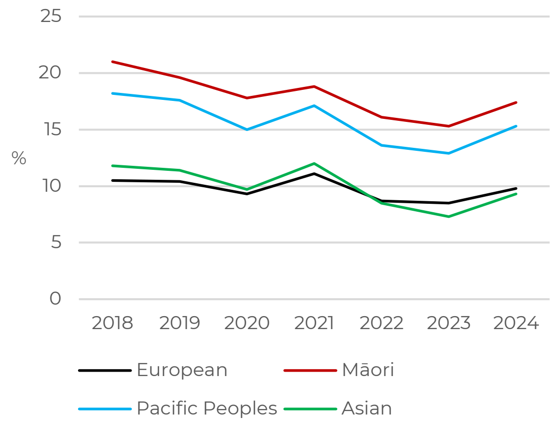
For Asian workers, whose unemployment and underutilisation rates are similar to Pākehā, unemployment was estimated to have increased 0.6 percentage points to 3.4% and underutilisation 2 percentage points to 9.3%.

Figure 3: Unemployment rate by ethnicity.



Source: Stats NZ.

Figure 4: Underutilisation rate by ethnicity.



Source: Stats NZ.

The NEET rate (people aged 15–24 who are not in employment, education, or training) for the year ending March 2024 was 12.1%, which is up 0.9 percentage points from the previous year. In real terms this represents approximately 79,500 young people who are not in employment, education, or training. Westpac bank noted that this is the highest that youth unemployment has been since 2015.

Together with the latest wage data (discussed below), these employment figures show that the jobs market is rapidly weakening. The forecasters expect that unemployment will continue to rise through the rest of the year and into 2025, peaking somewhere between 5–6%. This will put downward pressure on wages by reducing workers' bargaining power.

The government does not have a plan to deal with this increase in unemployment. Instead, it has made real-terms cuts to the minimum wage, is taking a punitive approach to social welfare, is making thousands of public sector workers redundant, and has signalled that it will "reduce core Crown expenditure as a proportion of the overall economy". These policy choices will likely put further pressure on the jobs market and do nothing to support those who find themselves thrown out of work.

Union membership

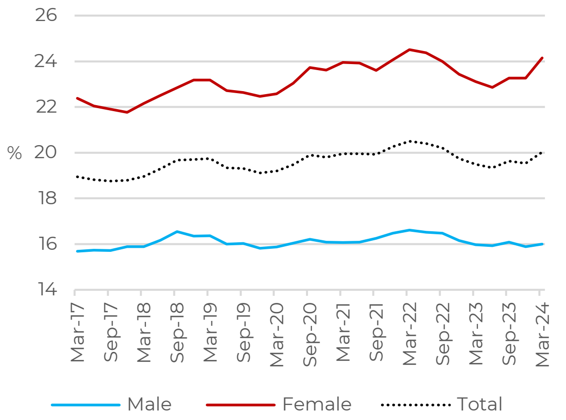
Calculated as an annual rolling average, total union membership was estimated to be 464,000, or 20% of the workforce in the year ending March 2024. Estimated union membership has hovered around this level since 2016 when this data series began. The margin of error in this is around 20,000 people either way.

Of those stating union membership, an estimated 16% of male workers were unionised, compared to 24% of female workers. All up, female workers accounted for an estimated 60% of the unionised workforce and males accounted for an estimated 40%. These ratios have been relatively steady since

2016, with a very gradual shift visible in the data towards a more female unionised workforce (see Figure 5).

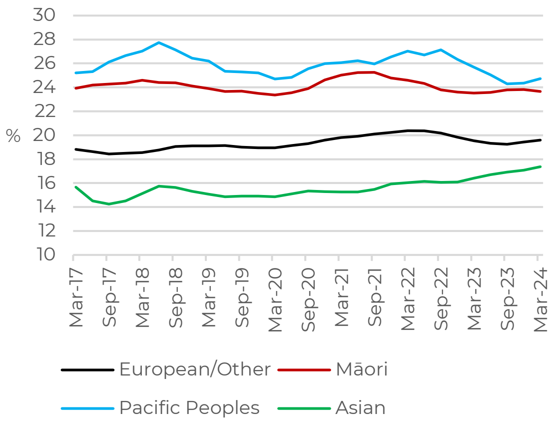
By ethnicity, the most heavily unionised workforce is Pacific workers, an estimated 25% of whom were union members in the year to March 2024. An estimated 24% of the Māori workforce were unionised, 20% of the Pākehā workforce were unionised, and 17% of the Asian workforce were unionised. Again, these numbers have been relatively steady over the past decade, with a small upward trend for Asian workers and a recent decline for Pacific workers notable, as shown in Figure 6.

Figure 5: Union density by sex, 2017-24.



Source: Stats NZ.

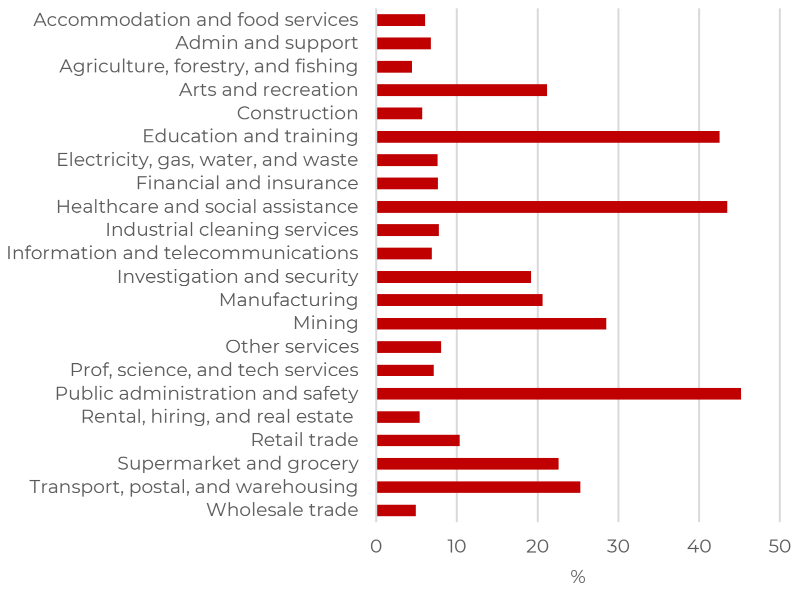
Figure 6: Union density by ethnicity, 2017-24.



Source: Stats NZ.

As Figure 7 shows, union density is above 40% in the public administration and safety, education and training, and healthcare and social assistance sectors – together, these sectors account for over 60% of total trade union membership in New Zealand. Union density is also relatively high in transport, postal, and warehousing, supermarket and grocery, mining, and manufacturing. It is relatively low in all other industries that Stats NZ reports on.

Figure 7: Union density by industry, March 2024.



Source: Stats NZ.

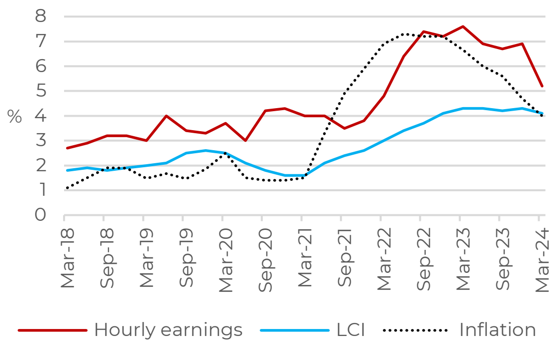
Wages

With unemployment rising and the economy cooling, wage growth has slowed. Average ordinary time hourly earnings grew by 5.2% in the year to March 2024, compared to 6.9% in the year to December 2023. They increased 6.2% in the public sector, to $48.46, and 4.8% in the private sector, to $38.97. Average hourly earnings increased 3.8% for men, to $42.79, and 6.9% for women, to $38.87.

The labour cost index (LCI), which measures the price for a fixed quality and quantity of labour – how much an employer must pay for the same skills and hours of labour each year, rather than the income received by workers – increased 4.1% annually. This measure covers salary and wage rates and includes overtime. The LCI increased 5.6% in the public sector compared to 3.8% in the private sector.

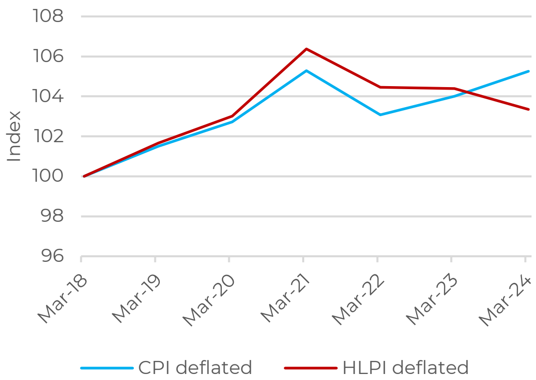
The higher rate of wage growth in the public sector in recent quarters reflects the conclusion of significant collective bargaining rounds in sectors such as health care and education in 2023.

Figure 8: Annual growth in wages and labour costs, 2018-24.



Source: Stats NZ.

Figure 9: Annual real wage growth, 2018-24.



Source: Stats NZ.

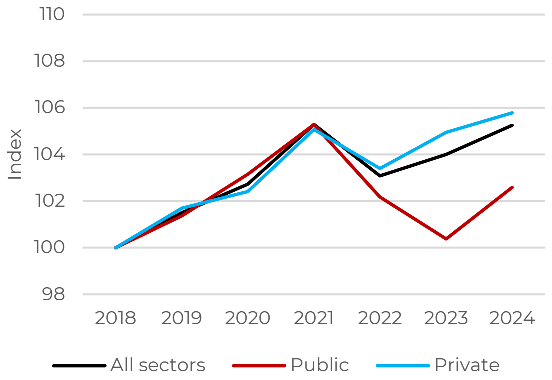
Taking a slightly longer view, Figure 9 shows that real wages deflated by consumer inflation declined through 2021 but bounced back in 2022 and 2023. By March 2024, real wages deflated by CPI had caught back up to their March 2021 level. In other words, on average, workers are no better off today than they were three years ago.

When deflated by household living costs – a measure which includes interest payments – real wages have fallen continuously since 2021. By March 2024, real wages deflated by household living costs were 3% lower than in March 2021. In other words, on this measure, workers are now on average poorer than they were in 2021.

Figures 10 and 11 overleaf show the real wage trajectory over the six years by sector and sex. The public sector has experienced a very large real wage decline since 2021 and is now in catch up mode. By contrast, the private sector experienced less of a wage shock in 2021 and 2022 but has experienced slower wage growth than the public sector since 2023. On the other hand, it's important to remember that average wages remain higher in the public sector than in the private sector.

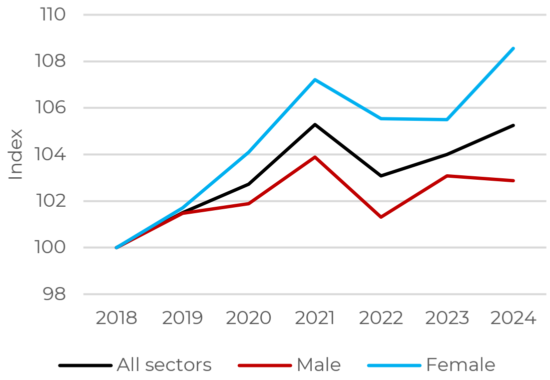
Women have experienced faster wage growth than men over the past five years, and this has accelerated over the past year. However, on average men still earn nearly $4 more an hour, when measured by average hourly earnings. It is likely that the faster increase in wages for women is partially the result of minimum wage hikes over the past couple of years.

Figure 10: Real wage growth by sector (CPI deflated).



Source: Stats NZ.

Figure 11: Real wage growth by sex (CPI deflated).



Source: Stats NZ.

By industry, average total hourly earnings (which are calculated by dividing total gross earnings by total paid hours) increased 5.2% overall. The largest increases were in healthcare, up 8.1%, and public administration and safety, up 7.8%. This reflects the conclusion of collective bargaining rounds in these sectors. Wages also grew strongly in information, media, and telecommunications, up 7.4%, electricity, gas, water, and waste services, up 7.3%, and education, up 6.8% for the year.

As Table 4 show, when deflated by CPI, 11 of the 16 industries that Stats NZ reports on experienced real wage growth and five experienced a decline in their real wages. With the jobs market weakening, we expect that wage growth will continue to cool over the rest of the year.

Table 4: Annual average wage growth to March 2024 (%).

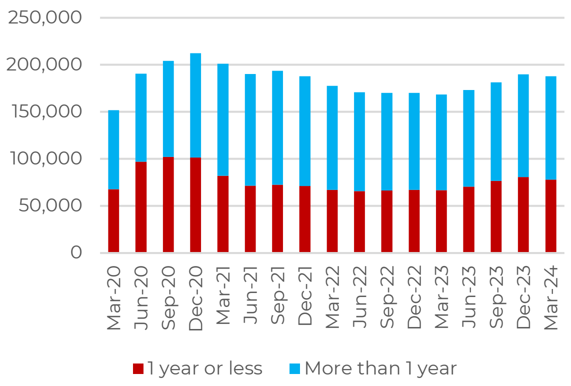
	Nominal	Real
All sectors (average hourly wages)	**5.2**	**1.2**
Public sector	6.2	2.2
Private sector	4.8	0.8
Female	6.9	2.9
Male	3.8	-0.2
All industries (average total hourly earnings)	**5.2**	**1.2**
Health care and social assistance	8.1	4.1
Public administration and safety	7.8	3.8
Information, media, and telecommunications	7.4	3.4
Electricity, gas, water, and waste services	7.3	3.3
Education and training	6.8	2.8
Retail trade	5.9	1.9
Transport, postal, and warehousing	5.3	1.3
Forestry and mining	5.0	1.0
Wholesale trade	4.8	0.8
Arts, recreation, and other services	4.7	0.7
Construction	4.1	0.1
Prof, sci, tech, admin, and support services	3.8	-0.2
Manufacturing	3.3	-0.7
Finance and insurance services	3.2	-0.8
Accommodation and food services	2.9	-1.1
Rental, hiring, and real estate services	2.1	-1.9

Source: Stats NZ.

Social welfare

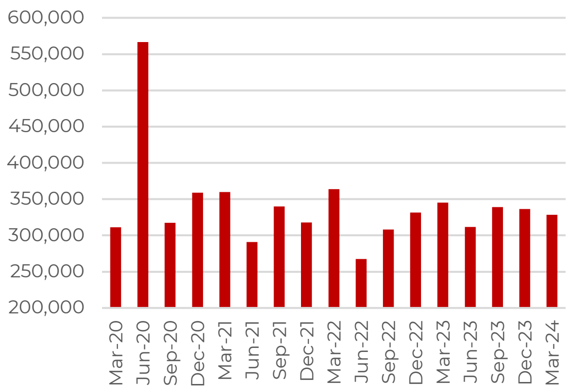
The Ministry of Social Development's quarterly benefit statistics show that, at the end of March 2024, 370,251 people were receiving a main benefit, which is essentially flat since the previous quarter. However, it is up 7.2% compared to the same time one year ago. Of those receiving a main benefit, 108,294 people were receiving Jobseeker Support – Work Ready, up 11.8% annually; 79,692 people were receiving Jobseeker Support – Health Condition or Disability, up 11.3% annually; 102,090 people were receiving the Supported Living Payment, up 2% annually; and 76,338 were receiving Sole Parent Support, up 3.8% annually.

Figure 12: Jobseeker recipients by duration of benefit.



Source: MSD.

Figure 13: Emergency food grants per quarter.



Source: MSD.

Of total Jobseeker Support recipients, 58.5% 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 March 2024, 57% were male, 42% female, and 1% gender diverse. Of those who reported their ethnicity, 49% were Pākehā, 40% were Māori, 13% were Pacific Peoples, 6% were Asian, and 6% were other ethnicities. By age group, 21% were aged 18–24, 32% were aged 25–39, 27% were aged 40–54, and 20% were aged 55–64.

During the March 2024 quarter, there were 597,465 hardship assistance payments. The number of payments is down 9.3% compared to a year ago and the total value of payments is down 7.9%. Of this, there were 328,593 special needs grants for food, for a total value of $33.8 million.

Prices

Consumer inflation

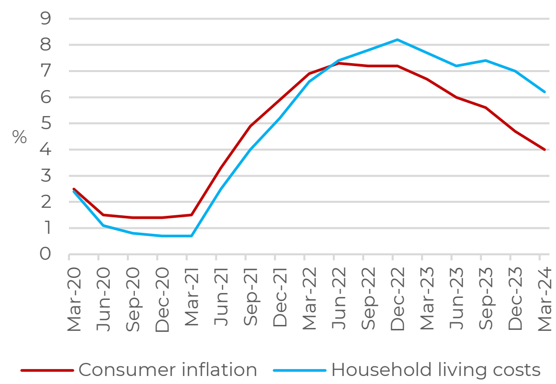
Consumer inflation was 4% for the year ending March 2024, down from 4.7% for the year ending December 2023. Quarterly inflation remained more or less steady, at 0.6%. New Zealand's annual inflation rate is below the OECD average of 5.7% but above that of Australia (3.4%), the UK (3.4%), Canada (2.8%), and the US (3.5%).

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 was 1.6% for the year ending March 2024 compared to 3% for the year ending December 2023. Quarterly tradeable inflation was -0.7% compared to -0.2% for the previous quarter.

By contrast, non-tradeable inflation (goods and services that do not face foreign competition) barely budged. Annually, non-tradeable inflation was 5.8% for the year ending March 2024, compared to 5.9% for the year ending December 2023. And on a quarterly basis, non-tradeable inflation actually increased, moving from 1.1% in the previous quarter to 1.6%.

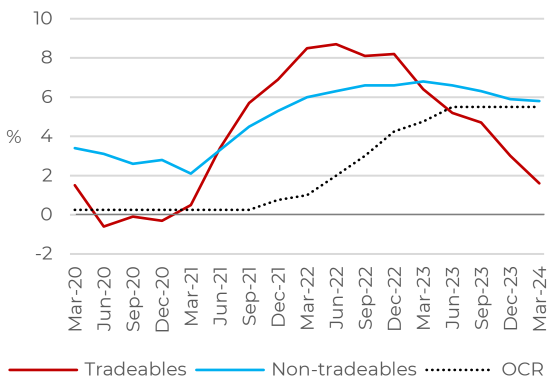
These figures throw doubt on the idea that the decline in inflation has been driven by the Reserve Bank's interest rate hikes. Theoretically, the Reserve Bank can influence non-tradeable inflation, but cannot influence tradeable inflation, as the latter is determined by international forces beyond the Reserve Bank's control. It therefore seems that we are experiencing a decline in inflation because of various shocks that have buffeted the global economy since 2020 have unwound.

Figure 14: Annual consumer inflation and living costs.



Source: Stats NZ.

Figure 15: Annual tradeable and non-tradeable inflation.



Source: Stats NZ.

The largest contributors to the quarterly inflation figure were tobacco, up 6.5%; rent prices, up 1.2%; new housing, up 12.9%; and accommodation services, up 6.7%. However, quarterly inflation for the transport group fell 2.5%, largely driven by falling prices for passenger services. That rent prices continue to increase at a close-to-historic pace throws doubt on the government's claims that the tax cuts they have given landlords will put downward pressure on rents.

Annually, the largest contributor to inflation was the housing and household utilities group, up 4.5%. This was driven by a 4.7% increase in the cost of renting, a 3.3% increase in the cost of new housing, and a 9.6% increase in the cost of local body rates. Other major contributors were the cost of the recreation and culture group, up 5.6%; alcohol and tobacco, up 7.4%; food, up 2.4%; and the cost of insurance, up 14%.

Forecasters expect that inflation will continue to moderate and will fall back within the Reserve Bank's target range of 1–3% by the second half of the year. However, due to the persistence of high non-tradeable inflation, it is also expected that the Reserve Bank will keep interest rates high for longer than previously thought.

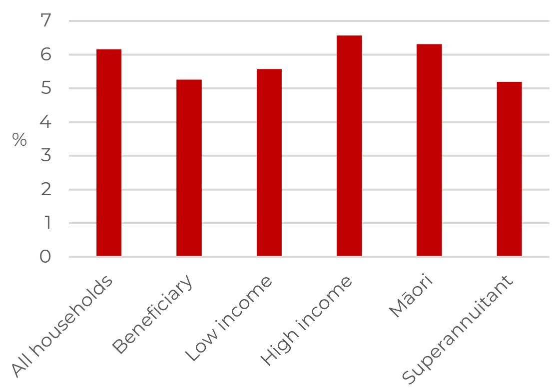
Importantly, the Reserve Bank has little ability to affect the rate of inflation in areas such as local body rates and property insurance. If we are to reduce the rate of inflation in these areas long term, then central government intervention is desperately needed. For example, one of the drivers of local body rate increases is our degraded water infrastructure. To avoid repeated double-digit rate increases in the future, central government needs to use its fiscal heft to address this infrastructure deficit.

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.

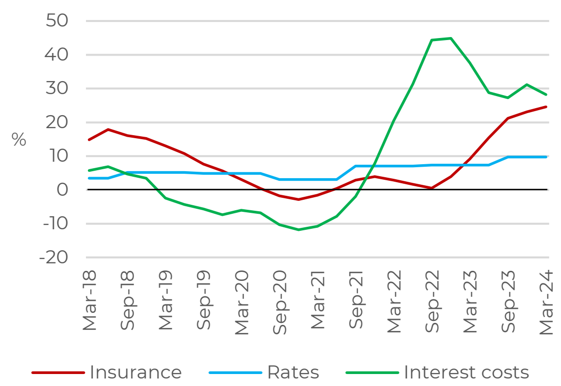
The cost of living for all household groups increased 6.2% in the year ending March 2024. This is down from 7% for the year ending December 2023 and down from the peak of 8.2% for the year ending December 2022.

Figure 16: Annual living costs inflation, March 2024.



Source: Stats NZ.

Figure 17: Property-related costs inflation, 2018–24.



Source: Stats NZ.

Living costs increased 5.6% for households in the lowest income quintile, 6.3% for Māori households, 5.3% for beneficiary households, and 5.2% for superannuitants. Against the long-run trend, households in the top income quintile continued to experience a slightly higher increase in the cost of living, at 6.6%. However, these households are also the best positioned to absorb the impact of rising prices, due to their higher incomes.

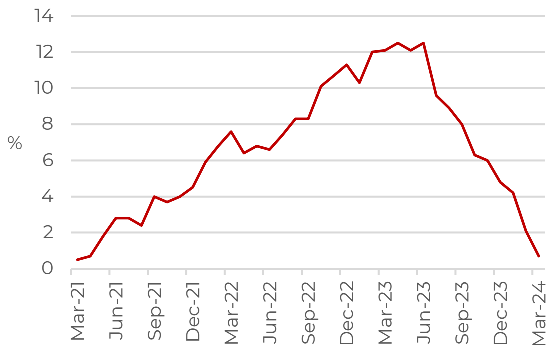
Interest rates have been one of the largest drivers of household living costs inflation, up 28.2% annually due to the Reserve Bank's OCR hikes. By now, most mortgage holders have had to move off the low fixed rates they were able to secure in 2020 and 2021 and onto higher interest rates. In its May *Financial Stability Report*, the Reserve Bank noted that only 10% of mortgage lending is still on rates lower than 4%. The average rate is now 6% across the full stock of mortgage lending.

While mortgages in arrears remain relatively low, they have been steadily rising for the past year. The Reserve Bank notes that "Households that borrowed heavily relative to their incomes are particularly strained by rising interest costs", and "rates of financial hardship are highest amongst those between the ages of 30 and 50", as these households tend to have larger mortgages. However, banks continue to enjoy large profits. The net interest margin – the difference between the cost of funds and the interest income received by banks – continues to hover around its highest level in a decade, while the return on assets and the return on equity also remain strong.

Food inflation

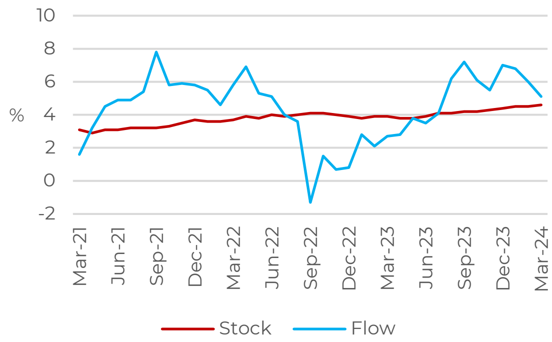
The monthly data shows that food price inflation is well within the Reserve Bank's target range for overall inflation. Compared to March 2023, food prices were only 0.7% higher in March 2024. The price of fruit and vegetables fell 13% for the year, the price of meat and fish rose 0.2%, and the price of grocery food increased 1.7%.

Figure 18: Annual food price inflation.



Source: Stats NZ.

Figure 19: Annual rent price inflation.



Source: Stats NZ.

Rent inflation

Compared to March 2023, rents increased 5.1% on the flow measure and 4.6% 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, rent price inflation was 4.9% in Auckland, 2% in Wellington, 6.4% in the rest of the North Island, 7.8% in Canterbury, and 8.5% in the rest of the South Island.

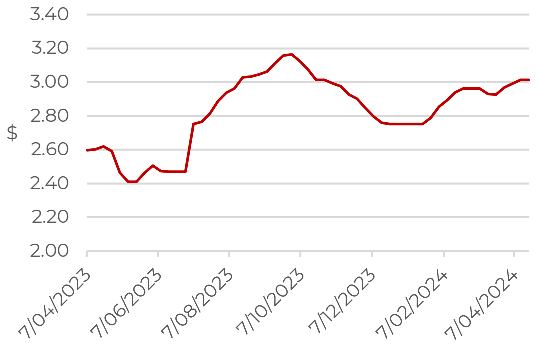
Fuel prices

The price of fuel has lifted slightly. For the week ending 26 April 2024, MBIE's fuel-price monitoring had regular petrol at $3.00 per litre, premium petrol at $3.20 per litre, and diesel at $2.28 per litre. Oil is currently trading around US$80 per barrel on the West Texas Intermediate (WTI). The WTI is a leading indicator of price pressures in New Zealand.

Central bank interest rates

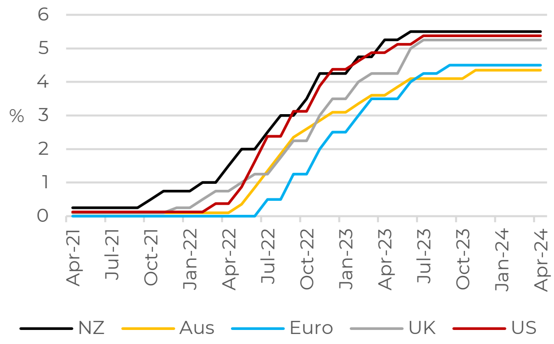
The Official Cash Rate (OCR) remains unchanged since our last Bulletin, at 5.5%. A further rate hike is still visible in the Reserve Bank's forecast, but it is uncertain whether this will happen. The forecasters are not expecting any cuts to the OCR until late this year, if at all. Other developed economy central banks have also held their interest rates steady.

Figure 20: 91 unleaded petrol price.



Source: MBIE.

Figure 21: Central bank interest rates.



Source: BIS.

Real estate

As of March 2024, the REINZ house price index (HPI) was up 2.6% from the same time last year, but down 14.5% from its late-2021 peak. It is up an annual compound growth rate of 5.7% from five years ago. The national median house price for March 2024 was $800,00, which is up 2.7% annually. Overall, the monthly indicators continue to show house prices lifting across most of the country and sales activity picking up.

Table 5: REINZ house price index, percentage increases, March 2024.

	3 months	1 year	5 years*	From peak
National	0.2	2.6	5.7	-14.5
National excl. Auckland	0.4	2.9	7.0	-10.6
Auckland	-0.3	2.2	3.8	-20.1
Wellington	-1.2	4.7	4.6	-21.3
Canterbury	1.8	4.4	8.5	-4.4

** Compound annual growth rate*

Source: REINZ.

Economy

Migration

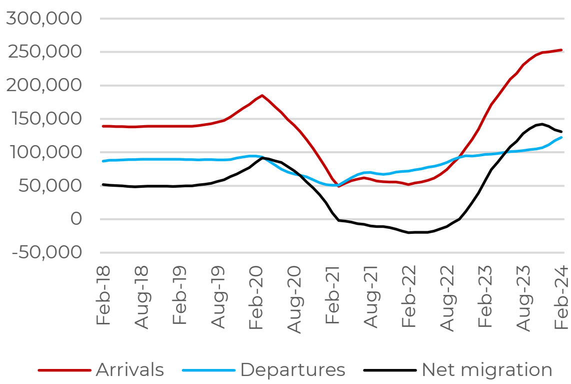
Net immigration remains very high. For the year ending February 2024, there were an estimated 253,200 migrant arrivals and an estimated 122,300 migrant departures – both are provisional records. This produced an estimated net migration gain of 130,900 people for the year. As Figure 22 shows, net immigration remains very high by historical standards, though appears to be tapering off somewhat because of record outflows of New Zealand citizens.

The high level of net immigration has been driven by citizens of India, with an estimated 45,700 net arrivals, the Philippines, with an estimated 33,700 net arrivals, and China, with an estimated 21,400 net arrivals for the year ending February.

The net outflow of New Zealand citizens remains at record highs, with an estimated 47,700 New Zealanders leaving the country in the year to February.

In early March, the CTU 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 rapidly growing population. This potential public investment gap will only be exacerbated by the government's planned cuts. We will continue to analyse this issue when the Budget is released on 30 May.

Figure 22: Annual migration.



Source: Stats NZ.

Overseas merchandise trade

For the year ending March 2024, total good exports were valued at $69.1 billion, down 4.2% from the previous year. Total goods imports were valued at $79 billion, down 11.2% from the previous year. This produced a goods trade deficit of $9.9 billion, which is down from the deficit of $16.8 billion recorded in the year ended March 2023. The tables below detail the annual movement in our 10 major exports and 10 major imports by value.

Table 6: Main goods exports, year ending February 2024.

	$ millions	% change from previous year
Milk powder, butter and cheese	19,607	-4.1
Meat and edible offal	8,686	-7.1
Logs, wood, and wood articles	4,866	-5.8
Fruit	3,686	-2.4

Mechanical machinery and equipment	2,411	8.4
Preparations of milk, cereals, flour, and starch	2,386	-11.6
Wine	2,072	-13.2
Fish, crustaceans, and molluscs	1,979	7.6
Casein and caseinates	1,551	-19.3
Electrical machinery and equipment	1,542	3.9

Source: Stats NZ.

Table 7: Main goods imports, year ending March 2024.

	$ millions	% change from previous year
Vehicles, parts, and accessories	10,848	-6.1
Mechanical machinery and equipment	10,815	-6.0
Petroleum and products	10,764	-9.0
Electrical machinery and equipment	7,117	-6.7
Textiles and textile articles	3,093	-12.7
Optical, medical, and measuring equipment	2,749	1.9
Plastic and plastic articles	2,518	-19.0
Pharmaceutical products	2,372	-5.7
Iron and steel, and articles	1,733	-29.9
Food residues, wastes, and fodder	1,461	-26.1

Source: Stats NZ.

Consumer and business confidence

Consumer confidence continued to decline in April, falling a further 4 points to 82.1. 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.

This fall was driven by a large drop in confidence around future economic conditions, which has fallen from 100.9 in February to 85 in April. This measure had trended steadily upwards in the latter half of 2023 but has fallen back steeply since February 2024, likely due to the widespread sense that the economy is souring, with rising unemployment, negative GDP growth, and the ongoing increase in the cost of living.

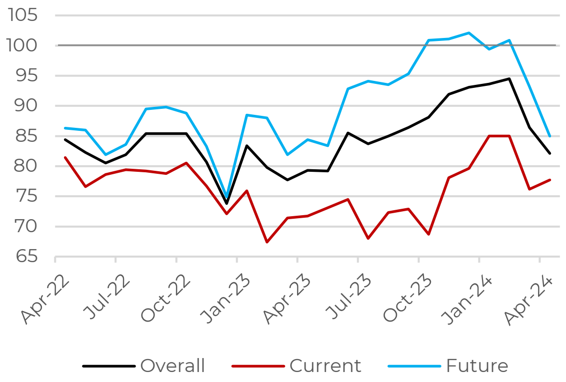
A net 28% of those surveyed reported it was a bad time to buy a major household item, which is down from March. This question is seen as a leading indicator of consumer confidence and future economic activity. A net 17% of those surveyed reported they were worse off financially than one year ago, but a net 19% expect to be better off financially by this time next year.

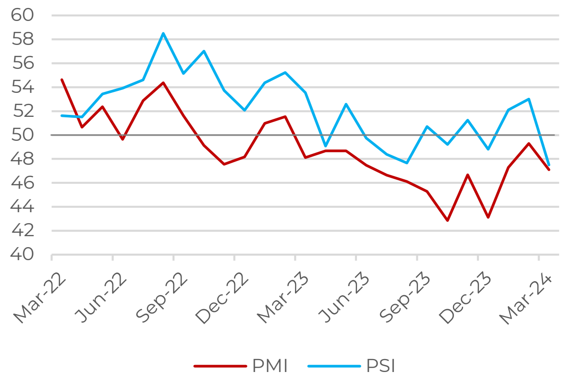
Business confidence also continued to fall, down a further 8 points from March to +15 points. Confidence fell across all sectors, with retail down 18.3 points to +11.9; manufacturing down 1.9 points to +18.6; agriculture down 8.3 points to 0; construction down 18.3 points to +15; and services down 5.2 points to +17.2. The “own activity” outlook was down across the board, though remained positive in all sectors except for retail. Employment intentions were negative in retail, manufacturing, agriculture, and construction, and weakly positive in services.

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.

Figure 23: ANZ–Roy Morgan Consumer Confidence Index. **Figure 24:** BNZ–BusinessNZ PMI and PSI.





Source: ANZ.

Source: BusinessNZ.

For March 2024, the manufacturing index continued to indicate contraction, at 47.1 – down 2 points from the previous month. This was driven by falls in the production, employment, and new orders sub-indexes. The PMI has now been registering a contraction for a full year, driven by low demand and low production.

The PSI has also taken a dive, falling 5 points to 47.5 March. This was driven by falls across the activity/sales, new orders/business, stocks/inventories, and supplier deliveries sub-indexes which are all negative. In both the PMI and the PSI, the proportion of negative comments continue to outweigh the proportion of positive comments, with respondents commonly citing the economic slowdown and inflation as concerns.

Building consents

In March 2024, the seasonally adjusted residential dwelling consents fell 0.2% from the previous month, after having increased 16% from January to February. For the year to March 2024, consents fell 25% to 35,236. Building consents are now hovering around their 2017 levels, which is a big concern given New Zealand's chronic housing shortage and growing population.

Of the major regions, consents were down 28% annually in both Auckland and the Waikato, 35% in Wellington, and 20% in Canterbury.

Nationally, consents per 1,000 residents have continued to fall, down to 6.7 compared with 9.1 the same time one year ago.

This ongoing downswing in construction is likely being driven by the Reserve Bank's interest rate hikes which is driving up the cost of building.

NZCTU Te Kauae Kaimahi

Government accounts

The interim financial statements of government for the nine months ended March 2024 show that core Crown revenue, expenses, and debt are below forecast, while the operating deficit is slightly higher than forecast.

Core Crown tax revenue was $88.5 billion, which is $1.2 billion below the Treasury's Half-Year Economic and Fiscal Update (HYEFU) forecast. Corporate tax revenue was $1.7 billion below forecast, while GST revenue was $0.3 billion below forecast. However, source deduction revenue (income tax) was close to forecast.

Core Crown revenue was $98.1 billion, which is $1.6 billion below forecast due to the movements in tax revenue noted above.

Core Crown expenditure was $100.9 billion, which is $1.4 billion lower than forecast. Expenditure was lower than expected on North Island weather events recovery programmes, economic and industrial services, housing and community development, and environmental protection.

The OBEGAL (operating balance before gains and losses) deficit grew to $5 billion, which is $0.6 billion higher than forecast at HYEFU. Finally, the net debt position was 42.9% of GDP ($173.7 billion), which is essentially as forecast.

Table 8: Interim government accounts for the nine months ended 31 March 2024.

	Mar 2024	HYEFU forecast	Mar 2023
Core Crown tax revenue ($m)	88,522	89,728	83,615
Core Crown revenue ($m)	98,149	99,778	91,737
Core Crown expenses ($m)	100,905	102,280	92,520
Net debt (% of GDP)	42.9%	43.0%	40.1%
Operating balance ($m)	–5,039	–4,420	–3,388

Source: Treasury.

Compared to the nine months ended March 2023, core Crown tax revenue increased 5.9%. This was driven by the high employment level and nominal wage growth, with income tax receipts rising 11.2% over the period. Other direct tax revenue was up 100%, due to higher deposit interest rates, which the Crown taxes. GST revenue increased 4.9% due to high inflation driving higher nominal consumption.

Core Crown expenses were 9.1% higher than the same period last year. Social welfare costs rose $2.3 billion, due to increased superannuation payments. Finance costs rose $2.1 billion compared to the previous year, due to higher interest rates and a higher absolute level of debt. And education costs rose $1.4 billion, due to wage increases in primary and secondary education collective agreements.

The OBEGAL deficit was $1.7 billion higher than the same time last year. Finally, net Crown debt as a percentage of GDP was up from 40.1% to 42.9%. As always, though, it is worth remembering that New Zealand's level of government debt remains very low by international standards.