NZCTU
Te Kauae Kaimahi

Economic Bulletin

May 2024

NEW ZEALAND COUNCIL OF TRADE UNIONS
union.org.nz

Economic Bulletin

May 2024

Welcome to the May 2024 Economic Bulletin. In our monthly feature we look at the coalition government's first Budget, and what it means for working people. We break down what the Budget means for key sectors of the economy, the government's tax cuts, and what the Budget tells us about this government's plan for New Zealand.

Budget 2024 clearly demonstrates the values of the new coalition government. Short-term benefits for some are provided in the form of tax cuts. But this will come at the cost of thousands of jobs, depleted public services, rising child poverty, and increasing insecurity for many workers.

In our regular updates, we look at the latest economic forecasts from the Treasury and the Reserve Bank. The outlook has generally darkened in recent months, with weak GDP growth, rising unemployment, and slower nominal wage growth.

We also examine the latest inflation, migration, retail spending, international trade, consumer and business confidence, and housing statistics. And we summarise the latest set of government accounts.

For the latest employment, wages, social welfare, and consumer inflation data, please see the April Bulletin. For the latest GDP data, please see the March Bulletin.

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

Craig Renney

Economist and Director of Policy

craigr@nzctu.org.nz

Jack Foster

Policy Analyst

jackf@nzctu.org.nz

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Key data for trade unionists

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.

Economic forecasts (annual percentage change, June years)

	GDP			CPI			Wages*			Unemployment			Official Cash Rate**		
	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average
Jun 2024	-0.1	-0.2	-0.1	3.6	3.4	3.5	3.8	5.9	3.9	4.6	4.9	4.7	5.6	5.7	5.5
Jun 2025	1.7	1.7	1.6	2.6	2.2	2.3	3.4	3.8	3.5	5.1	5.2	5.2	5.5	4.5	5.4
Jun 2026	2.9	3.2	2.9	2.0	2.0	2.0	3.2	3.1	3.3	5.0	4.8	5.0	4.4	3.5	4.2

Source: RBNZ, Treasury, ANZ. The Average measure is the average of forecasts from the RBNZ, Treasury, and ANZ.
* 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 and ANZ.

Wage growth to March 2024 (annual percentage change)

	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

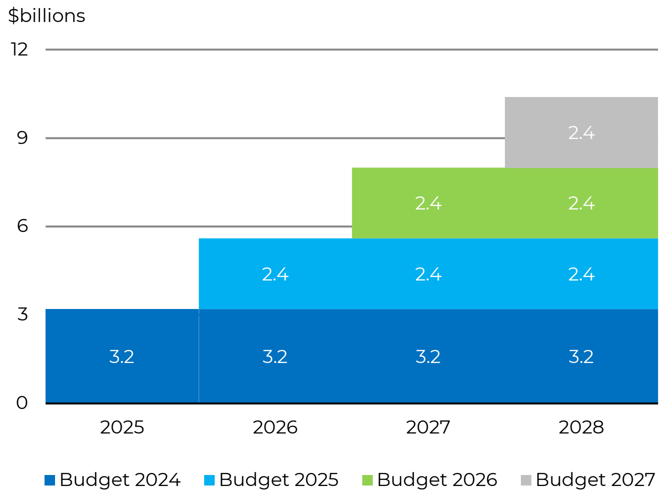
Source: Stats NZ. Real is deflated by consumers price inflation for the year ending March 2024.

Budget 2024: Tracking the cuts

Budget 2024 clearly demonstrates the values of the new coalition government. Short-term benefits for some are provided in the form of tax cuts. But this will come at the cost of thousands of jobs, depleted public services, rising child poverty, and increasing insecurity for many workers in the face of the impacts of climate change. Significant cuts have been made across many areas of government spending. Education operating grants are set to fall in real terms. Health expenditure will, at best, match cost pressures. Social services such as emergency housing support are being cut back, as is progress on tackling climate change.

Budget 2024 has an operating allowance of $3.2 billion, with operating allowances of only $2.4 billion set for the next three years (the operating allowance is the additional spending that government makes each Budget). Over half of the allowances for Budgets 2025 and 2026 have already been "pre-committed" to fund health care cost pressures. As the Minister of Finance Nicola Willis noted in her Budget speech, managing within these allowances "will be challenging" and further rounds of spending cuts "will be a feature of future Budgets". Likewise, Treasury noted that "the future budget allowances are unlikely to be sufficient to cover future cost pressures on existing services". The clear conclusion: New Zealanders are looking at rolling cutbacks under this Government. This will worsen the crises that many working people face today, from a lack of affordable housing to under-resourced hospitals to intergenerational poverty.

Figure 1: Annual operating allowances, 2025–28.



Source: Treasury.

This Budget builds upon the "Mini Budget", delivered in December 2023, and the legislative changes that the government has already made. These include:

- The repeal of the Fair Pay Agreements Act.
- The indexing of benefits to inflation instead of wage growth, meaning beneficiaries will collectively be approximately $676 million worse off over the next four years.
- The disestablishment of the Industry Transformation Plans that were to support productivity, innovation, and good work across eight industries.
- The ending of the Income Insurance Scheme, which would have provided most workers with income protection in the event of redundancy.
- The repeal of the Resource Management reforms.

- The repeal of the Affordable Waters (Three Waters) programme, which was aimed at addressing New Zealand's failing water infrastructure.
- The raiding of the Climate Emergency Response Fund and the Government Investment in Decarbonising Industry Fund to the tune of $1.5 billion and $647 million respectively.
- The repeal of the Clean Vehicle Discount, which was assisting with the transition to electric vehicles.
- The removal of free and half-price public transport for young New Zealanders.

Below, we discuss major features of Budget 2024. We examine the major areas that the government has sought to focus attention on in this Budget – the tax cuts, investment in health, education, and police, corrections, and defence – and the sweeping cuts that government has made across other areas of government investment, from Māori development to climate change to housing support.

Terminology

Budgets are full of technical jargon. This box defines some key terms.

Operating expenditure (opex): The day-to-day government spending that doesn't include capital expenditure. Operating expenditure covers things like the cost of salaries and utilities. Most government expenditure is opex.

Capital expenditure (capex): Expenditure to acquire or develop assets such as buildings and roads.

Core Crown: This consists of the Crown, departments, Offices of Parliament, the NZ Superannuation Fund, and the Reserve Bank. When analysing government expenditure and revenue, the Treasury and the commentariat tend to focus on core Crown expenditure and revenue.

Cost pressures: Each year, government provides additional funding to different public services to account for inflation, rising population, wage adjustments, and other factors that may increase costs. Although this is technically "new" expenditure, it is not improving the level or quantity of services available. It is the extra investment needed each year just to "stand still".

Forecast period: The four-year period covered by each Budget. Budget 2024 covers the following fiscal years: 2024/25, 2025/26, 2026/27, 2027/28. Unless stated otherwise, all dollar figures discussed in this note refer to the amount the government has allocated or cut over this four-year period.

Net core Crown debt: This is the measure used by government when calculating targets for New Zealand's public debt. It is gross sovereign-issued debt less core Crown financial assets, but excluding the advances and assets held by the NZ Superannuation Fund.

OBEGAL: The operating balance before gains and losses. This is total Crown revenue less total Crown expenses, stripping out short-term market fluctuations. If OBEGAL is in surplus, this indicates that Crown revenue exceeds operating expenses. If OBEGAL is in deficit, this indicates that Crown operating expenses exceed revenue. When government talks about "getting back to surplus", it is referring to the OBEGAL.

Operating allowance: The amount of new funding available to government each year. Except for welfare, most areas of government expenditure do not automatically adjust to account for inflation and cost pressures. All new spending must therefore be covered by the operating allowances, extra borrowing, or cuts to other lines of expenditure. At each Budget, the government outlines its forecast operating allowances for the next four years.

Votes: Parliament considers Budget appropriations by “Votes”, which generally group together similar areas of expenditure and revenue – for example, “Vote Environment” and “Vote Health”.

The tax package

The government’s tax plan is estimated to cost the Crown $14.7 billion over the next four years. The tax policy changes include:

- Rejigging the income tax brackets, as shown in Table 1. These brackets have been adjusted to account for what economists’ call “fiscal drag” – the process by which inflation pushes people into higher tax brackets over time.
- The reinstatement of interest deductibility for landlords, who will collectively reduce their tax payments by $2.9 billion over the next four years as a result.
- The extension of the eligibility cap for the Independent Earner Tax Credit from $48,000 to $70,000 per annum. This tax credit must be retroactively claimed by workers, and many people who are eligible for this credit do not know of its existence.
- An increase of $25 per week to the In-Work Tax Credit, which is for families who are not on an income-tested benefit and are normally in paid work.
- A change in support for early childhood education (ECE) costs, shifting away from 20 hours free for 2-year-olds and instead providing a tax credit for some parents with children in ECE.
- Rolling back the bright-line test from ten years to two years, which is estimated to cost the Crown $180 million in foregone revenue. The bright-line test requires that investors pay capital gains tax on investment properties if they are sold within a certain timeframe.

Table 1: Summary of tax bracket changes.

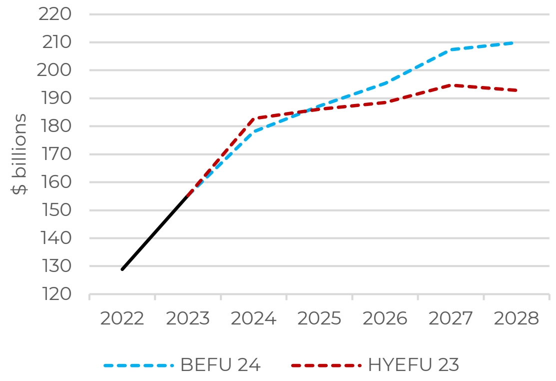
Rate	Current bracket	New bracket
10.5%	$0 – $14,000	$0 – $15,600
17.5%	$14,001 – $48,000	$15,601 – $53,500
30%	$48,001 – $70,000	$53,501 – $78,100
33%	$70,001 – $180,000	$78,101 – $180,000
39%	$180,001+	No change

Source: NZ Government.

Overall, the tax plan is weighted towards those with average and above-average incomes. For example, a couple who each earn $150,000 per annum will get $2,085 per year from the tax cuts. By contrast, a couple who are both on the minimum wage will get an extra $1,302 per year, with $262 of this coming from the tax bracket adjustment and $1,040 coming from the extension of the Independent Earner Tax Credit. Meanwhile, a retired couple receiving NZ Superannuation will only get $224 more a year. As has been widely reported, many households will see this eaten away by the removal of free prescriptions and half-price public transport and by rising housing costs.

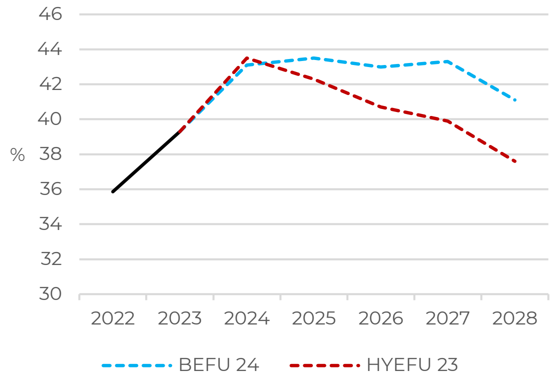
The Minister of Finance claims that “The tax plan is fully offset by reprioritisation, savings and new revenue”. This is smoke and mirrors. As the Treasury’s Budget Economic and Fiscal Update (BEFU) makes clear, there is now a larger cash shortfall over the next four years than previously forecast, which is going to be covered by additional borrowing. Compared to the Treasury’s Half-year Economic and Fiscal Update (HYEFU) in December 2023, the government is now set to borrow an additional $17 billion by June 2028. If the Government wasn't pushing through its tax cuts, it wouldn't be needing to cover this revenue shortfall with so much additional debt.

Figure 2: Core Crown net debt, $ billions.



Source: Treasury.

Figure 3: Core Crown net debt as percent of GDP.



Source: Treasury.

The government has, however, committed to setting up several new revenue-gathering mechanisms:

- A gaming duty will be charged on online gambling. This is forecast to bring in $193 million over the next four years, which is just over a quarter of the revenue that National claimed this tax would raise during the election.
- The government will implement the legislation for a Digital Services Tax – which taxes large multinationals – that was introduced by the Labour government in 2023 and then paused because of the election. This is forecast to bring in $320 million in revenue over four years.
- Increased immigration fees and levies are forecast to bring in $531 million over four years.

Health care

As our population grows and gets older, the demand for health services increases. Combined with inflation driving up costs, this means that government needs to spend more on health each year just to tread water. To this end, the Government has allocated $1.43 billion of new spending to cover health sector cost pressures in 2024/2025. Treasury's Pre-election Economic and Fiscal Update (PREFU), released in September 2023, estimated that this level of investment would be needed to meet cost pressures for the 2024/25 fiscal year. However, in March of this year Te Whatu Ora officials informed the government that this figure would likely fall short of what was needed to meet cost pressures. At best, then, this extra spending will maintain current service levels; it will do nothing to address the chronic workforce shortages across the sector, the deterioration of access to community and hospital-based health care, and the unmet health needs of many New Zealanders.

The Budget also pre-commits $1.37 billion to meet health cost pressures for the 2025/26 fiscal year and $1.37 billion for the 2026/27 fiscal year. This pre-committed funding will come out of the operating allowances of $2.4 billion for each of those years.

Budget 2024 also commits funding in the following areas:

- $1.6 billion to Pharmac to fund ongoing access to existing medicines. Note that this will not buy New Zealanders any new medications, it simply maintains the existing level of access.
- $232 million to continue to fund access to COVID-19 vaccines and therapeutics.
- $24 million to fund the extension of free breast screening to 70–74-year-olds.

- $30.8 million to fund an increased security guard presence in "the highest-risk" emergency departments.
- $24 million to fund youth mental health counselling through the non-government organisation Gumboot Friday.
- $22 million to fund 25 additional doctors per year from 2025 onwards.

The Budget also included the following cuts to health expenditure:

- $50 million has been cut from the Ministry of Health's baseline.
- The Māori Health Authority has been disestablished, a cut of $35 million over four years.
- The $5 charge for prescriptions has been reinstated for 14–64-year-olds, which will cost users $116 million over four years.
- The government has also removed money that had previously been set aside for investment in Te Whatu Ora's digital and data capacities – to enable the consolidation of the 20 different DHB systems into a single system. Without this investment, it will be difficult for Te Whatu Ora to manage this process.

The Budget retains funding in contingency in anticipation of likely pay equity settlements being reached between employees and non-government healthcare providers. The value of these contingencies is commercially sensitive, so we don't know how much has been set aside. However, since the government has disestablished the Pay Equity Taskforce – signalling a desire to wind-down work on pay equity – we suspect this funding will be inadequate to fund outstanding claims.

Prior to the Budget the government made the decision to repeal Labour's amendments to the Smokefree Act, which would have reduced the number of outlets that could sell tobacco and reduced nicotine levels in tobacco products. By repealing this aspect of the legislation, it is estimated that the government will bring in an additional $1.5 billion in revenue over four years. That's because, with more people smoking over this period, the government will pull in more in taxes on tobacco – call it the government's "cancer dividend". Even from the perspective of revenue, this is a poor decision. With more people smoking for longer, the Crown will incur billions of dollars in health costs and the economy will lose billions of dollars in foregone productivity, due to sickness and premature death. This, of course, is to say nothing of the damage that this decision will cause to families and individuals.

Budget 2024 also breaks several election pledges on health. National campaigned on increasing medical student numbers by 50 places per year and setting up a new medical school by 2027, with a roll of 120 students. However, this Budget only provides funding for an additional 25 medical students per year and commits only to fund a cost–benefit analysis of setting up the new medical school. Meanwhile, it does nothing to address the shortages of nurses, midwives, and other medical and support workers – despite the pledges made by National during the campaign. The government has also broken its promise to allocate $70 million per year to fund 13 new life-saving cancer drugs.

Finally, it is difficult to square this Budget with the government's five stated health objectives of faster cancer treatment, shorter stays in emergency departments, shorter wait times to see a specialist, shorter wait times for elective treatment, and improved immunisation. Except for the immunisation target, none of these areas received additional investment in Budget 2024. If anything, the government's decision not to fund the expansion of the health care workforce will make the achievement of these targets more difficult.

Compulsory and early childhood education

The story for education in this Budget is similar to that of health. Although overall expenditure has been lifted, the majority of this is to fund cost pressures, maintain New Zealand's ageing school properties, and continue the school lunches programme. In short, this "new" expenditure will not support improved education outcomes; at best, it will simply maintain the status quo.

The Budget provides $199 million in additional funding for schools' operational grants over the next four years, which equates to between a 2.5–3% increase from last year. This is a real terms cut, given that Treasury is forecasting inflation will be 3.4% for the year ending June 2024. Operational grants are used by schools for everyday costs and to pay non-teaching staff who are not funded through the centralised entitlement system.

Likewise, the early childhood education (ECE) subsidy has only been increased by 2%, making this the fifth year in a row the subsidy has failed to keep up with inflation. This will put further pressure on ECE centres who are already struggling to meet costs.

There have also been significant cuts to some aspects of compulsory education expenditure, with $440 million of savings forecast over four years. This has come through large reductions in the Ministry of Education's (MoE) budget, which will come at the cost of over 700 jobs. Further cuts have been made to Māori education initiatives. For example, Te Hurihanganui, a programme that supported communities to address racism and inequality in education, has been disestablished as part of MoE's baseline savings. The government has also decided not to extend the successful Mauri Tū Mauri Ora programme, which supported Māori medium and kaupapa Māori education.

School property funding has been lifted. $780 million has been allocated for future maintenance and repairs for New Zealand's existing school properties over four years. This is because these assets have been revalued and the government has had to set aside more money to cover future depreciation costs as a result. $456 million has been allocated to fund the building of additional classroom space, which is estimated to accommodate an additional 8,000 students over the forecast period. $178 million has been allocated to finishing the rebuild of Christchurch schools damaged by the 2010 and 2011 earthquakes. And $12 million has been allocated to fund property maintenance and cost pressures in kōhanga reo early learning services. As with the additional operational grants, this expenditure in school infrastructure is largely a case of maintaining existing service levels.

As announced prior to the Budget, the government is investing $153 million to resurrect the failed charter school programme, which opens the door to the privatisation of local schools. This money would have been far better spent on learning support initiatives. For the same money that has been tagged for charter schools, the government could fund 700 full-time teacher aides, or 360 full-time psychologists, or 350 full-time speech language therapists, or 412 full-time Kaiārahi i Te Reo – or a mix of the above. This would significantly increase the workforce in these vital roles.

Other Budget initiatives in the compulsory education sector include:

- $478 million to maintain the Healthy School Lunches Programme. Funding has only been continued until the end of the 2026 school year, leaving the future of this programme unclear.
- $163 million additional funding to maintain existing information and communication technology in schools. This is "keeping the lights on" spending.
- $67 million to support the implementation of structured literacy in New Zealand classrooms.
- $53 million to maintain funding for increasing the teacher workforce.

* $45 million to provide additional supports for migrant school children learning English.
* $14.5 million to continue the Ikura Period Products in Schools Programme, which provides free period products to children in state and state-integrated schools and kura.

Tertiary education

As with compulsory education and ECE, the government has failed to keep up with cost pressures in tertiary education. A 2.5% increase to government funding has been announced to assist with education and training system pressures. This is almost 1% below forecast inflation.

Students will get hit with a 6% increase to tuition fees in 2025. This will increase the debt burden incurred by students, especially as the government has also switched the fees free programme from the first year to the final year of study – which is forecast to save the government approximately $893 million over the next four years but does nothing to improve access to education.

On the vocational side of tertiary education, funding to the Workforce Development Councils has been cut, meaning these organisations will be disestablished. This will save the government $195 million over the next four years. Together with the ending of the Centres of Vocational Excellence projects (which help to connect industry, learners, and vocational education providers in the primary industries and construction and infrastructure sectors), this completes the government's dismantling of the Reform of Vocational Education. We remain in the dark as to what the intended replacement is for this crucial part of the education system.

One small ray of light was the government's decision to partially continue funding the Apprenticeship Boost scheme, which provides employers of apprentices in registered trades with $500 per month, per apprentice. This has been successful in supporting higher numbers of people into trades. However, the government is reducing the availability of the funding from 24 months per apprentice to 12 months.

Police, corrections, defence

"Law and order", and defence, are among the few areas that receive meaningful investment in Budget 2024. Corrections will see a net $615 million increase in opex, and a $39.6 million increase in capex. $205 million of this will go to staff remuneration and recruitment. Corrections also gets $800 million for more prison beds over the next four years. On the other side of the balance sheet, there are cuts of $442 million, including $172 million from the Department of Corrections support services, and health, rehabilitation, and reintegration services for prisoners.

Overall, police get a net $527 million increase in opex, and $68.6 million in capex over the forecast period. $120 million of this is to fund cost pressures for police remuneration for 2024/25. Another $225.6 million has been provided to fund 500 additional police officers. However, as elsewhere, the government has made significant cuts to the support functions that police rely upon, with $55 million cut over four years.

Rounding out the picture, while the courts are being forced to implement tougher approaches to sentencing, the support for lifting cultural capability within the Ministry of Justice has been slashed in half.

While increases to the pay of corrections officers and police is important, it won't help to address the root causes of crime in the country – such as poverty, economic insecurity, and intergenerational disadvantage. The government's approach in this Budget is to throw money at the symptoms, rather than the causes, of crime. Indeed, many of its policy decisions to date are set to worsen poverty and insecurity, which will likely increase future offending rates.

The Defence Force is also receiving new investment this Budget, with an additional $603 million allocated. This will be used to fund Defence Force remuneration, and to purchase equipment and vehicle upgrades.

Māori development

Vote Māori Development saw $96.7 million in cuts over the forecast period, with no new spending announced by the government. These cuts include the removal of $22.8 million in funding for the Hapori Māori Data Capability programme. This programme focuses on improving the data and evidence available to Māori communities on issues such as climate change. We know that this kind of information is essential in supporting a just transition to a low-carbon economy and empowering communities to engage in this process. The thousands of tangata whenua and tangata Tiriti that turned out for the nationwide day of action on Budget day were proven right regarding the government's disregard of Te Tiriti of Waitangi.

These cuts to Vote Māori Development should be viewed in the context of wider cuts to programmes that support Māori development and improved outcomes – such as the disestablishment of the Māori Health Authority – and government decisions that will have a disproportionate effect on Māori workers and communities – such as the repeal of the Fair Pay Agreements system.

Vote Pacific Peoples also sees nothing but cuts, with $25.6 million cut from the Ministry for Pacific Peoples' budget over four years.

Workplace relations

There have been significant cuts to workers whose role it is to address discrimination and pay inequity, which is an ongoing feature of employment in New Zealand. This includes the disestablishment of the Pay Equity Taskforce, which supplied essential advice and support to unions and employers on this complex issue. Pay equity settlements have been a major step forward in valuing women's work equally in New Zealand. This achievement would not have been possible without the expertise, relationships, and position as a trusted broker that the taskforce provided.

This is the third time an incoming National government has undone the institutional supports necessary for pay equity to be progressed. In 1990, it repealed the Employment Equity Act. In 2009, it disbanded the Pay Equity Unit of the Department of Labour. Disestablishing the Pay Equity Taskforce will have a similar impact – it will undo work that has already been done, and the loss of expertise will make it harder in the future to take the next steps to address pay gaps.

For the 200,000 workers that are covered by pay equity claims that have yet to be settled, this will mean a longer wait until they're paid what they're worth. Half of these people work in the funded sector, where Māori, Pacific, and low-paid workers are highly represented.

Elsewhere in the employment relations space, the government has eked out small savings by axing important pieces of work and policy support. This includes ending support for the Industrial Relations Foundation, the Equal Employment Opportunities Trust, and the Screen Industry Occupational Bargaining (together totalling savings of $4.1 million) and cutting $7.7 million in funding to Employment Relations Services. These cuts will come at the expense of support, education, and resources for many workers and businesses.

Climate change and the environment

Budget 2024 back-peddles on numerous decarbonisation and climate resilience initiatives. All up, $408 million has been cut from Vote Environment over the forecast period. Cuts include:

- $52 million cut from the Ministry for the Environment's (MfE) waste minimisation work.
- $38.3 million cut from various energy portfolio programmes, including the Community Renewable Energy Fund and the Support for Energy Education in Communities Programme.
- $37.8 million cut from partnerships and engagement. This includes removing funding to the Community Environment Fund and Indigenous Biodiversity implementation funding.
- $35.5 million cut from a range of climate-related initiatives, including the Climate Change Development Fund and the Climate Resilience for Māori initiative.
- $15.6 million in funding cut to the Climate Change Commission.
- $9.7 million cut from MfE's evidence and data capacities, which covers issues like environmental standards, monitoring, reporting. This is in addition to a further $22.3 million that has been cut from MfE's departmental budget.

The only "new" spending in this area is $92 million of recycled funding to pay for the government's planned replacements for the Resource Management Act reforms. $178 million in funding from the Waste Disposal Levy – a charge on waste disposal that can currently be used for waste minimisation initiatives – is to be redirected to a wider range of activities such as freshwater improvement and cleaning up contaminated sites. Other Crown funding for these programmes will be reduced.

Conservation funding has also been slashed, with $132 million in cuts to Vote Conservation and only $4 million of that recycled into new spending. In addition, $397 million has been cut from Vote Agriculture, Biosecurity, Fisheries, and Food Safety. The cuts include:

- $55.4 million in funding for the Jobs for Nature Programme, which will wrap up in 2026. This programme delivers regional employment opportunities in conservation projects.
- $23.6 million cut from freshwater programmes.
- Ending progress on the Kermadec Ocean Sanctuary will return $17 million.
- A further $51.6 million has been cut from DOC's departmental budget.
- $37 million cut for mātauranga Māori approaches to agricultural emissions reduction.
- $18.2 million cut from the Sustainable Land Management and Climate Change Programme.
- $10.8 million cut from the budget for the acceleration of the development of agricultural greenhouse gas mitigations.

An increase to the International Visitor Conservation and Tourism Levy is expected to bring in an additional $262 million in revenue over the forecast period.

The cuts to climate change and environmental investment discussed above should be viewed together with the government's removal of $1.5 billion in ring-fenced funding for the Climate Emergency Response Fund and $647 million for the Government Investment in Decarbonising Industry Fund; the repeal of the two Acts passed by the Labour government to replace the Resource Management Act; the ending of the Clean Vehicle Discount; and the development of the Fast-track Approvals Bill, which has been widely criticised due to the unprecendented power it gives to individual Ministers to unilaterally approve infrastructure projects. Together with the cuts in Budget 2024, these actions look set to worsen environmental outcomes in New Zealand.

Housing

Given the challenges facing New Zealand in housing supply, and with record rental inflation contributing to the exodus of skilled workers to Australia, we might have expected additional resourcing to be made available. On the contrary: Budget 2024 cuts net expenditure for Housing and Urban Development by $1.5 billion. The cuts include:

- $1.4 billion from Kāinga Ora expenditure on asset maintenance and personnel.
- $200 million from Kāinga Ora-led large-scale projects, plus an additional $235 million in capex cuts.
- $245 million from the ending of the First Home Grant Scheme, with this money partially recycled into investment in the social housing supply.
- $46 million returned from the Emergency Housing Review and Homelessness Action Plan.
- $40 million cut from the development of new supply and capability for Māori housing.
- $20 million cut from funding for rangatahi youth transitional housing.
- $17 million cut from the Progressive Home Ownership programme, which helps people into homeownership through things like rent-to-buy.

The Government is also discontinuing elements of the Warmer Kiwi Homes scheme to save $178 million. This scheme both helps improve energy affordability and reduces the environmental impact of housing – an example of smart policy that hits multiple objectives at once.

The government has provided $75 million in funding to Kāinga Ora – Homes and Communities to continue to fulfil its non-public-housing functions and obligations. $140 million has been committed to the funding of 1,500 new social housing places, which will be delivered not by the state, but by community housing providers. And $27.8 million in time-limited funding has been provided for ongoing emergency accommodation for people displaced by Cyclone Gabrielle/the Auckland floods.

Alongside the recent review of Kāinga Ora, the government's Budget decisions show it is intent on moving away from the public provision of public housing in favour of outsourcing it to third parties. This model has proved ineffective and expensive in the past.

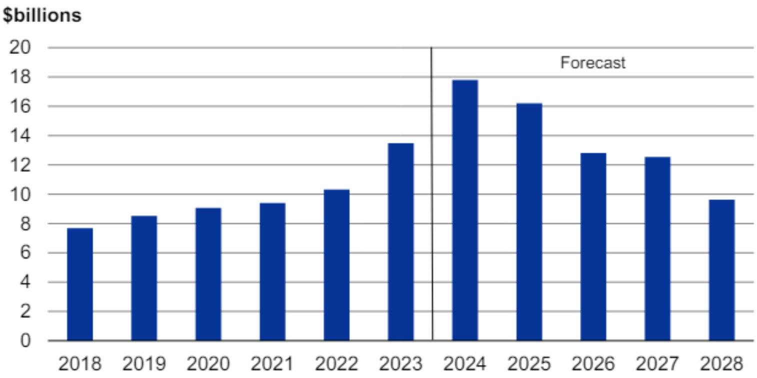
Infrastructure

The infrastructure announcements were concentrated on transport, which is one of the largest parts of any budget in terms of expenditure. A net $391 million in opex has been cut from Vote Transport, but new investment of $3.7 billion in capex has been announced. Except for $200 million for improving the rail network, almost all the capex will go towards roads. The government appears to be uninterested in building out and maintaining a sustainable public transport infrastructure that can help us move towards net zero.

Importantly, $47 million of the cuts to Vote Transport have come from winding back the Public Transport Workforce Sustainability and Skill Improvement Programme. This programme, established by the previous Labour government, is intended to improve pay and conditions in the public transport sector. The cuts to this programme announced in Budget 2024 relate to work to improve penal rates and split shifts. These are both known to be major issues that contribute to unsafe working conditions for drivers as well as workforce retention issues.

Strikingly, net infrastructure investment is forecast to fall over the next five years (see Figure 4). This is despite New Zealand's well-known, and growing, infrastructure deficit. In 2021, it was estimated that we had accumulated a $104 billion shortfall in public infrastrucutre investment over the last 30 years, and were due to accumulate a further $106 billion over the next 30 years if we continue to invest at current rates. The burst water pipes and overcrowded hospitals that are everyday features of New Zealand life are testament to this. To overcome this deficit, we need large and sustained public investment in building out our physical infrastructure. The graph below shows that this government is taking us in the opposite direction.

Figure 4: Net government infrastructure investment.



Source: NZ Government.

Social development

Budget 2024 allocates $1.1 billion to meet cost pressures over the next four years for disability support services. However, disability advocates have warned that this will be insufficient to provide the levels of support that are needed in an area that has already been starved of investment. The minimum wage exemption, which enables disabled workers to be paid below the minimum wage, has been kept in place. And other Budget decisions will also have disproportionality negative impacts on disabled people, such as the removal of free prescriptions and the reduced support for emergency and transitional housing – which is seeing hundreds-of-millions of dollars slashed from its funding.

Economic development

Despite the government talking a big game regarding its "economics" credentials, there is a notable absence of any economic strategy in the Budget. An example of this is the large reduction in funding for Vote Business, Science, and Innovation. $1.4 billion in funding has been cut here with only $608 million returned in the form of "new" spending. Cuts directly relating to economic development include:

- Cuts to research funding, including the ending of the National Science Challenges ($173 million) and the reduction in funding to the Strategic Science Investment Fund ($17.8 million), the Endeavour Fund ($9.8 million), the Health Research Fund ($4.9 million), the National Centre of Research Excellence for Preventing and Countering Violent Extremism ($3.3 million), and the Marsden Fund ($3.1 million).
- $16.7 million cut from the Commerce Commission's budget, which will hamper our understanding of how to improve New Zealand's competition problems across supermarkets, banking, and energy, among other industries.
- $10.3 million cut from the funding of the Just Transitions programmes in Taranaki and Southland, together with the disestablishment of the Future of Work Tripartite Forum.

- $10 million cut from the Accelerator Wood Processing Growth Fund, which supports domestic wood production.

By making these cuts to New Zealand's scientific research and industrial development capacities, the government is directly undermining its own stated goal of lifting productivity. Scientific research is fundamental to improving New Zealand's economic dynamism and helping to address the multitude of economic and social challenges we face. A government that was truly future-focused would invest heavily in supporting scientific research and active industrial policy.

The state of science funding has prompted trade unions active in the science sector (including the PSA, TEU, NZEI, and AMEA, as well as the NZCTU) to come together with a range of science sector organisations to form the Save Science Coalition to oppose science cuts and make the case for a foundation of support for public science. You can find out more about it here.

Government agencies

All up, Budget 2024 lays out cuts of $1.5 billion per annum to public agencies' baseline funding, and another $1 billion per annum in additional cuts. So far up to 6,000 workers will be losing their jobs as a result. These are people who perform critical roles, such as keeping our borders safe, tackling our environmental challenges, and providing support to New Zealanders who need it. These people are being forced out of a job cut at a time when the economy is weak, and unemployment is already rising.

The scale of the cuts is huge. For example, the Ministry for Primary Industries is having $468 million cut from its budget, and will lose staff working in biosecurity, food safety, fisheries, and forestry. The Ministry for the Environment is having $347 million cut from its budget, resulting in a huge cut to its staffing levels across things like climate change and waste minimisation programmes. And the Ministry of Social Development is having $767 million cut from its budget, which will mean a significant reduction in staff who help ensure hundreds-of-thousands of New Zealanders get the support they need – needs that will only grow as unemployment rises over the next year. Contrary to the government's glib claims about "doing more with less", these cuts will mean public agencies will be doing less with less. Ultimately, this means reduced public services for New Zealanders.

A notable feature of these cuts is the reduction of public agencies' data and insights capacities, with more than $150 million in identifiable cuts (a conservative estimate). Cuts have been made across data and insights capacity in areas as diverse as business and employment, data and evidence for Māori communities regarding climate change, and the Growing Up in New Zealand study, which tracks the development of several thousand children. $17.5 million has also been cut from the budget of the National Library and Archives New Zealand, which protects many of New Zealand's taonga.

By cutting jobs and research funding in data and insights, the government is effectively blinding the state: it is making it more difficult to understand the problems that diverse communities face and how they can be addressed. This is clearly at odds with the government's stated commitment to "evidence-based policy" and the "social investment approach" – which is supposed to use evidence to determine high-value social investments and has been allocated $49 million in Budget 2024.

Fiscal outlook

Prior to the Budget, the Minister of Finance outlined an intention to "reduce core Crown expenses towards 30 per cent of GDP", and to "Put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent". Budget 2024 identifies the further target of returning the OBEGAL "to surplus by 2027/28". Setting aside the issue of whether these are sensible targets in the first place, meeting them will be challenging due to the worsening economic and fiscal outlook.

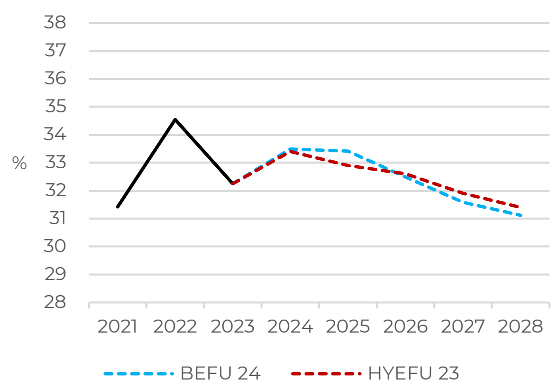
Table 2: Fiscal outlook, year ending 30 June.

	Actual	*Forecast*				
% of GDP	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Core Crown tax revenue	28.4	28.8	28.5	28.9	29.3	29.5
Core Crown revenue	31.2	32.0	31.6	31.7	32.0	32.2
Core Crown expenses	32.3	33.5	33.4	32.5	31.6	31.1
Net debt	34.4	38.9	41.3	42.7	42.9	41.3
OBEGAL	–2.4	–2.7	–3.1	–1.9	–0.6	0.3

Source: Treasury.

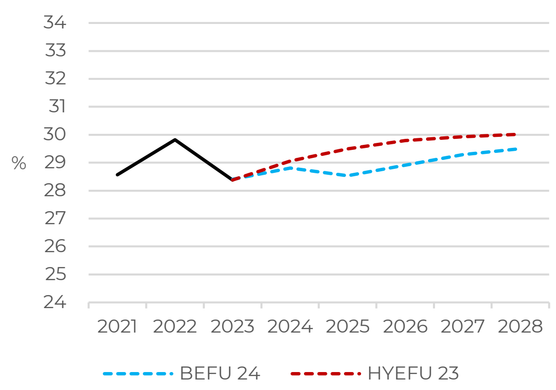
This worsening outlook is largely the result of a forecast decline in tax receipts, relative to HYEFU, as the economy continues to be weighed down by high interest rates. The government's debt-funded tax cuts will reduce revenue further. Both core Crown expenditure and core Crown revenue are thus forecast to fall over the next four years, compared to the track outlined in the December 2023 HYEFU.

Figure 5: Core Crown expenditure as percent of GDP.



Source: Treasury.

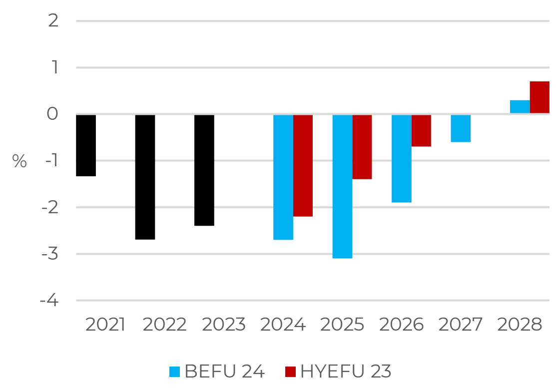
Figure 6: Core Crown tax revenue as percent of GDP



Source: Treasury.

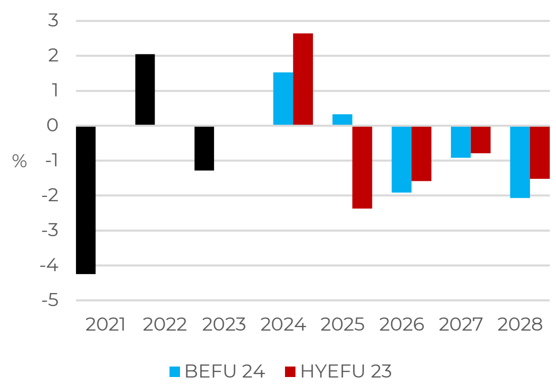
The OBEGAL deficit has blown out a further year, compared to the HYEFU (see Figure 7). This is in part because of lower forecast tax revenue. The forecast track for core Crown net debt has also increased, compared to HYEFU.

Figure 7: OBEGAL as percent of GDP.



Source: Treasury.

Figure 8: Fiscal impulse as percent of potential GDP.



Source: Treasury.

The government's tax cuts may have an inflationary impact in the short term by adding to aggregate demand. This is visible in Figure 8, which shows Treasury's estimate of the fiscal impulse – "a measure of the change in the Government's fiscal contribution to aggregate demand from one year to the next". If the fiscal impulse is positive, the government's fiscal stance is adding to aggregate demand relative to the previous year; if it is negative, the government's fiscal stance is subtracting from aggregate demand relative to the previous year.

The Minister of Finance has set operating allowances of only $2.4 billion for the next three Budgets. With more than half of this money already "pre-committed" to meet health cost pressures in the Budgets 2025 and 2026, further cuts to public investment are to be expected. The small operating allowances also pose a problem for the government: if the fiscal outlook worsens – even only slightly – then it will need to make even deeper cuts to public investment to stick to its operating allowances.

Further analysis

The CTU will continue to publish analysis of Budget 2024 and what it means for working people and different workforces over the coming weeks.

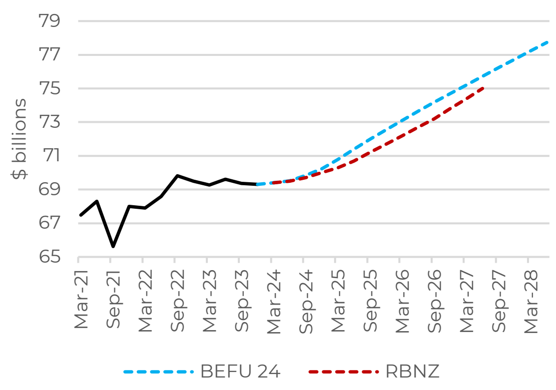
Many thanks to our affiliates for their help in compiling the analysis provided in this Bulletin and on Budget day.

Economic outlook

The Reserve Bank released its latest economic forecasts in the 22 May Monetary Policy Statement (MPS). The Treasury then released its latest forecasts in the Budget Economic and Fiscal Update (BEFU) on 30 May. Compared to their previous set of forecasts, both institutions have downgraded their outlook for the New Zealand economy, which looks set to perform weakly over the next year. As always, we recommend treating these forecasts with caution. The below figures represent the mid-points of the Reserve Bank and Treasury forecasts, and so do not show the "upside" and "downside" forecasts.

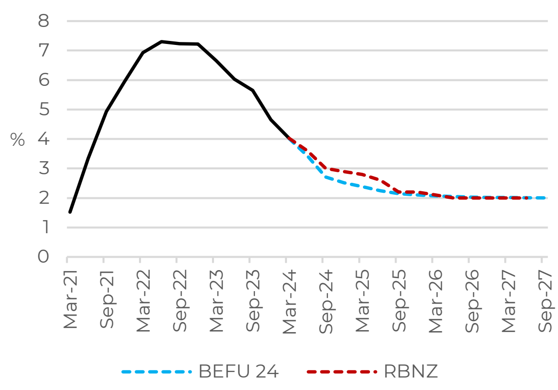
Broadly, economic activity is expected to remain subdued through the rest of 2024 and to slowly pick up pace in 2025. The Treasury's per capita growth forecast is particularly grim – Treasury forecasts that the economy will shrink 2.8% in the year to June 2024, and then contract a further 0.1% in the year to June 2025. This poor per capita performance is the result of slowing economic growth combined with record-high migration-driven population growth. In Treasury's forecast, the main thing supporting New Zealand's growth is a large increase in export volumes through 2024, 2025, and 2026. Weaker-than-expected foreign demand for New Zealand goods and services (such as tourism) will therefore result in worse GDP figures.

Figure 9: Real GDP, production measure.



Source: Treasury; RBNZ.

Figure 10: Annual consumer inflation.



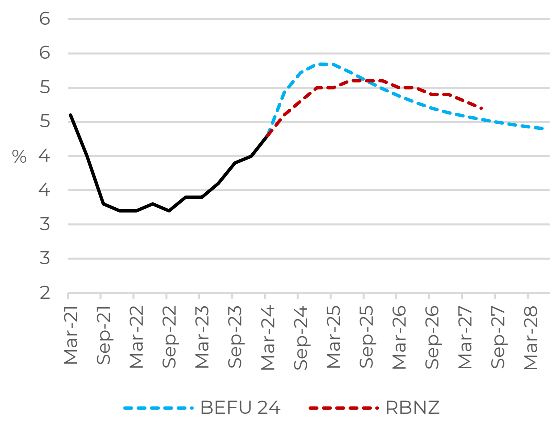
Source: Treasury; RBNZ.

The Treasury is forecasting quite a rapid decline in inflation, which seems a touch optimistic, given the ongoing increases in the cost of rentals, council rates, and insurance, which do not respond to higher interest rates. The Treasury forecasts that inflation will fall to 2.7% by the September 2024 quarter, which is within the Reserve Bank's target range. By contrast, the Reserve Bank expects inflation to fall slower, not coming within the target band until the December quarter.

There is also a difference in the unemployment forecast between the two institutions. Treasury expects unemployment to rise quite quickly to a peak of 5.3% in the December 2024 quarter. This would mean 166,000 New Zealanders out of work – 47,000 more than when the coalition government took power in 2023. The Reserve Bank's main forecast is for unemployment to rise more slowly and peak lower, at 5.1%, in the June 2025 quarter. Annual average hourly wages are forecast to grow at a slower level than the past two years. The Reseve Bank has annual private sector wage growth falling to 3.8% for the year ending June 2024 and then stabilising just above 3%.

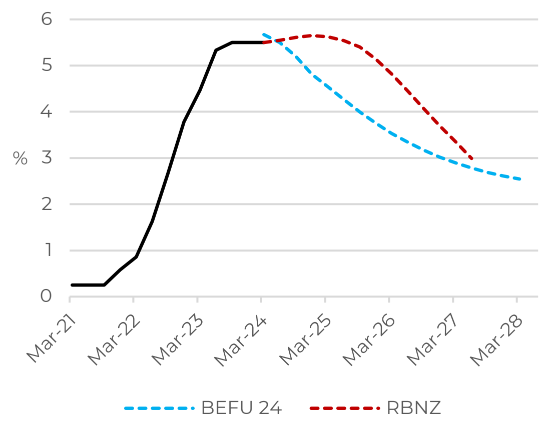
As a result of these divergent inflation and unemployment forecasts, there is a notable divergence in the Treasury and the Reserve Bank's interest rate forecasts. The Treasury expects interest rate cuts in the second half of this year. By contrast, the Reserve Bank has signaled that it expects the Official Cash Rate to remain at or above 5.5% until the second half of 2025.

Figure 11: Unemployment rate.



Source: Treasury; RBNZ.

Figure 12: OCR/90-day interest rate forecast.



Source: Treasury; RBNZ.

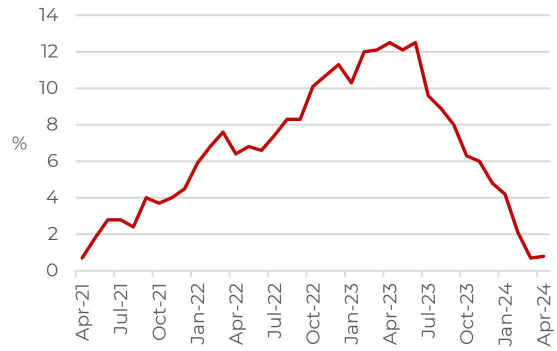
In this challenging economic environment, with weak economic growth, rising unemployment, sticky inflation, and persistently high interest rates, the government should be looking to invest in helping New Zealanders into good work and building out the infrastructure we need to enable sustainable and productive economic development. As Budget 2024 unfortunately offers no such plan.

Prices

Monthly price indicators

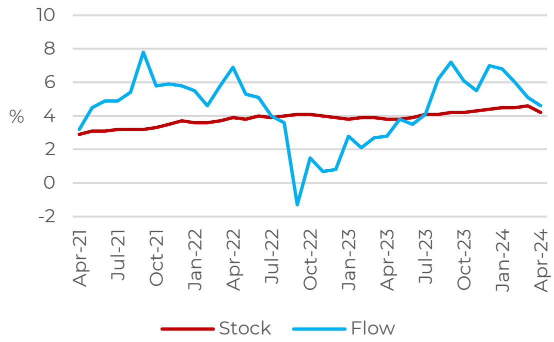
The monthly data shows that food price inflation is well within the Reserve Bank's target range for overall inflation. Compared to April 2023, food prices were only 0.8% higher in April 2024. The price of fruit and vegetables fell 13% for the year, the price of meat and fish rose 0.2%, and the price of grocery food increased 1.8%.

Figure 13: Annual food price inflation.



Source: Stats NZ.

Figure 14: Annual rent price inflation.



Source: Stats NZ.

Compared to April 2023, rents increased 4.6% on the flow measure and 4.2% 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.

As the Reserve Bank pointed out in its May Monetary Policy Statement, rent inflation, along with council rates and insurance, has been one of the major contributors to inflation over the past year. These prices are relatively insensitive to interest rates, which means that intervention from government is needed to help alleviate price pressures in these areas.

On the flow measure, rent price inflation was 3.7% in Auckland, 1% in Wellington, 5% in the rest of the North Island, 6.9% in Canterbury, and 10.3% in the rest of the South Island. The comparatively slow rate of rent price inflation in Wellington may reflect the weak job market there, which is partly the result of the government's cuts programme.

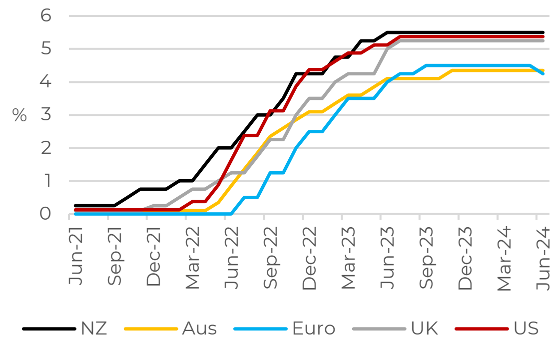
In transport, the cost of domestic air travel has fallen 6.9%, while the cost of international air travel has fallen 20.5%. The price of petrol has increased 15% compared to the same time last year, while the price of diesel has increased 4.5%.

For the week ending 31 May 2024, MBIE's fuel-price monitoring had regular petrol at $2.83 per litre, premium petrol at $3.03 per litre, and diesel at $2.13 per litre. Oil is currently trading around US$76 per barrel on the West Texas Intermediate, which 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%. As discussed above, the Reserve Bank's Monetary Policy Statement was more aggressive than had been anticipated by economic commentators. Previously, the Reserve Bank had signalled that it expected to begin cutting the OCR at the end of 2024. According to the Reserve Bank, rate cuts shouldn't be expected until mid-2025, and it is possible that there will be a further rate hike later this year. Treasury, on the other hand, is forecasting the first cut to come far earlier, as are some of the private banks. Some other developed economy central banks have started to ease interest rates, with the Bank of Canada and the European Central Bank both cutting their rates in June.

Figure 15: Central bank interest rates.



Source: BIS.

Real estate

As of April 2024, the REINZ house price index (HPI) was up 2.8% from the same time last year, but down 15.1% from its late-2021 peak. It is up an annual compound growth rate of 5.8% from five years ago. The national median house price for April 2024 was $790,00, which is up 1.3% annually. Overall, the monthly indicators showed a weakening of house prices across almost the entire country, as the economy slides into a funk. Forecasters are now expecting house prices to remain quite flat over the rest of 2024 and to grow only moderately in 2025.

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

	3 months	1 year	5 years*	From peak
National	–0.8	2.8	5.8	–15.1
National excl. Auckland	0.3	3.5	7.1	–10.6
Auckland	–2.2	1.9	3.9	–21.4
Wellington	–0.9	4.0	4.4	–21.8
Canterbury	1.2	4.7	8.5	–4.7

** Compound annual growth rate*

Source: REINZ.

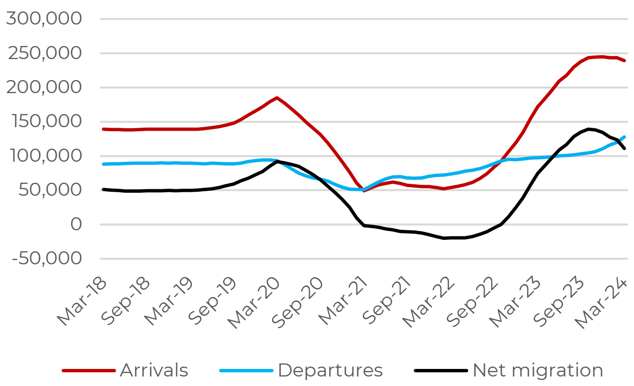
Economy

Migration

Net immigration remains very high. For the year ending March 2024, there were an estimated 239,000 migrant arrivals and an estimated 127,800 migrant departures. This produced an estimated net migration gain of 111,100 people for the year. As Figure 15 shows, net immigration is very high by historical standards, though appears to be tapering off somewhat, mostly because of record outflows of New Zealand citizens.

The high level of net immigration has been driven by citizens of India, with an estimated 49,800 net arrivals, the Philippines, with an estimated 31,900 net arrivals, and China, with an estimated 26,800 net arrivals for the year ending February. The net outflow of New Zealand citizens remains at record highs, with an estimated 52,500 New Zealanders leaving the country in the year to March.

Figure 15: Annual migration flows.

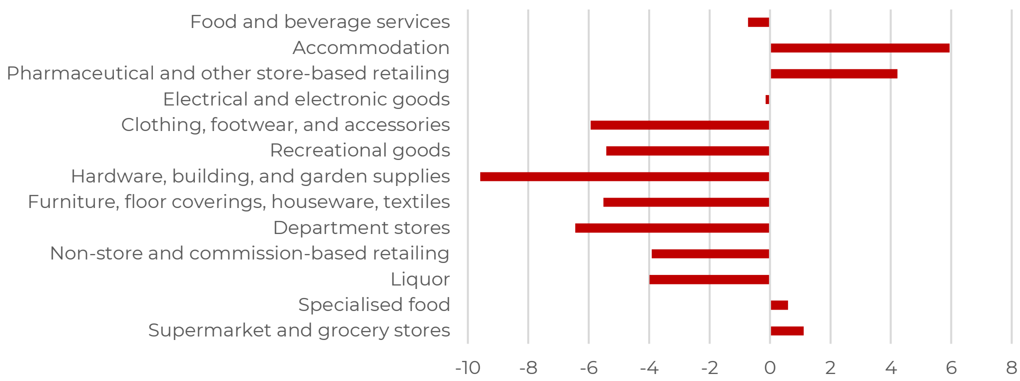


Source: Stats NZ.

Retail trade

Consumer spending lifted mildly in the March 2024 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 $24.8 billion, up 0.5% from the December 2023 quarter but down 2.6% from the same time one year ago.

Figure 16: Annual percentage change in retail sales volumes, March 2024.



Source: Stats NZ.

The relative weakness in consumer spending, relative to the same time a year ago, indicates that higher interest rates are eating up a larger proportion of household budgets, thus draining demand out of the economy.

The largest quarterly increases in consumer spending were in recreational goods, up 4.7%; accommodation, up 4.1%; and clothing, footwear, and accessories, up 2.4%. The largest declines in consumer spending were on hardware, building, and garden supplies, down 2.8%; specialised food, down 2.1%; and department stores, down 1.5%.

Overseas merchandise trade

For the year ending April 2024, total good exports were valued at $68.8 billion, down 5.2% from the previous year. Total goods imports were valued at $78.9 billion, down 11.9% from the previous year. This produced a goods trade deficit of $10.1 billion, which is down from the deficit of $17 billion recorded in the year ended April 2024. The tables below detail the annual movement in our 10 major exports and 10 major imports by value.

Table 4: Main goods exports, year ending April 2024.

	$ millions	% change from previous year
Milk powder, butter and cheese	19,346	–6.8
Meat and edible offal	8,644	–7.5
Logs, wood, and wood articles	4,753	–7.6
Fruit	3,955	5.9
Mechanical machinery and equipment	2,411	7.4
Preparations of milk, cereals, flour, and starch	2,377	–13.4
Wine	2,065	–14.4
Fish, crustaceans, and molluscs	1,962	3.2
Casein and caseinates	1,569	–17.3
Electrical machinery and equipment	1,532	1.7

Source: Stats NZ.

Table 5: Main goods imports, year ending April 2024.

	$ millions	% change from previous year
Petroleum and products	10,964	–12.8
Vehicles, parts, and accessories	10,766	–6.7
Mechanical machinery and equipment	10,691	–7.8
Electrical machinery and equipment	7,138	–7.5
Textiles and textile articles	3,097	–12.2
Optical, medical, and measuring equipment	2,762	1.8
Plastic and plastic articles	2,530	–17.6
Pharmaceutical products	2,334	–6.9
Iron and steel, and articles	1,710	–29.3
Food residues, wastes, and fodder	1,430	–27.0

Source: Stats NZ.

Consumer and business confidence

Consumer confidence lifted slightly in May, up 4 points to 84.9. 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. Confidence in future economic conditions lifted 5 points to 90 and confidence in current economic conditions remained very low, at 78. A net 29% of those surveyed reported it was a bad time to buy a major household item. This question is seen as a leading indicator of consumer confidence and future economic activity. A net 15% of those surveyed reported they were worse off financially than one year ago, but a net 6% expect to be better off financially by this time next year.

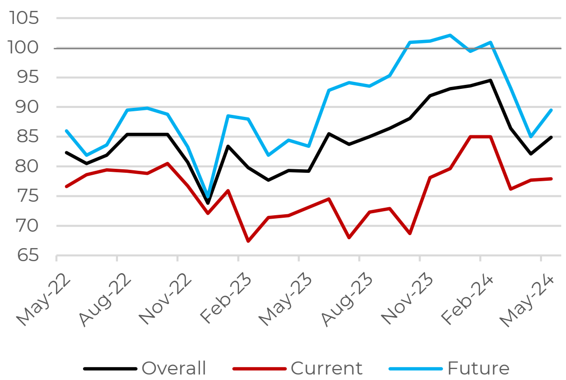
Business confidence fell 4 points in May to +11 points. Confidence rose 3 points in retail to +15 and 10 points in manufacturing to +28. Confidence fell 16 points in agriculture to -16; construction fell 10 points to +5; and services fell 6 points to +11. The "own activity" outlook was mixed, with manufacturing, agriculture, and services looking up, but retail and construction down. Employment intentions were negative in all industries except manufacturing.

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.

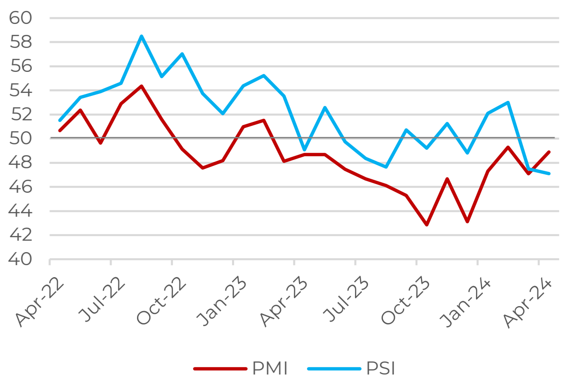
For April 2024, the manufacturing index moved up slightly to 48.9. The PMI has now been registering a contraction for a full year, driven by low demand and low production. The PSI has also remained in contractionary territory, at 47.1 for April. In both the PMI and the PSI, the proportion of negative comments continue to outweigh the proportion of positive comments, with respondents commonly citing the economic slowdown and inflation as concerns.

Figure 16: ANZ–Roy Morgan Consumer Confidence Index.



Source: ANZ.

Figure 17: BNZ–BusinessNZ PMI and PSI.



Source: BusinessNZ.

Building consents

In April 2024, the seasonally adjusted residential dwelling consents fell 1.9% from the previous month. For the year to April 2024, consents fell 23% to 35,401. 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 27% annually in Auckland, 25% in the Waikato, 30% in Wellington, and 16% in Canterbury. Nationally, consents per 1,000 residents were 6.7, compared with 8.9 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.

Government accounts

The interim financial statements of government for the ten months ended April 2024 show that the Crown accounts are slightly stronger than was forecast by Treasury for Budget 2024.

Core Crown tax revenue was $100.3 billion, which is $1.7 billion higher the Treasury's Budget Economic and Fiscal Update (BEFU) forecast (the BEFU forecasts were released alongside the Budget but completed in early May). Corporate tax revenue was $1.1 billion above forecast, and other direct taxes revenue was $0.6 billion above forecast. Overall core Crown revenue was $111 billion, which is $1.4 billion higher than forecast due to the higher-than expected tax revenue.

Core Crown expenses were $112.9 billion, which is $0.5 billion lower than forecast. Expenditure was lower than expected across core government services, law and order, education, and housing and community development.

The OBEGAL (operating balance before gains and losses) deficit was $6.5 billion, which is $1.7 billion lower than the BEFU forecast. Finally, the net core Crown debt position $175 billion (43.2% of GDP), which is $2 billion below forecast.

Table 6: Interim government accounts for the ten months ended 30 April 2024.

	Apr 2024	BEFU forecast	Apr 2023
Core Crown tax revenue ($m)	100,320	98,667	92,274
Core Crown revenue ($m)	110,958	109,537	101,375
Core Crown expenses ($m)	112,880	113,387	103,537
Net debt (% of GDP)	43.2%	43.7%	41.2%
Operating balance ($m)	–6,509	–8,220	–7,018

Source: Treasury.

Compared to the ten months ended April 2023, core Crown tax revenue increased 8.7%. This was driven by the high employment level and strong nominal wage growth, with income tax receipts rising 12% over the period. Other direct tax revenue increased 108%, due to higher deposit interest rates, which the Crown taxes. GST revenue increased 4.5% due to high inflation driving higher nominal consumption. But the Treasury notes that "the rate of increase in GST is lower than CPI inflation, indicating that consumers have cut back their real spending in response to mortgage interest rate and price increases".

Core Crown expenses were 9% higher than the same period last year. Social welfare costs rose $2.5 billion, due to increased superannuation payments and rising entitlement rates. Finance costs rose $2.2 billion compared to the previous year, due to higher interest rates that government must pay on its debt. Education costs rose $1.6 billion, due to wage increases in primary and secondary education collective agreements.

The OBEGAL deficit was $1.5 billion lower than the same time last year, due mostly to the movements discussed above in core Crown revenue and expenses. Finally, net core Crown debt was $18 billion higher than the same time last year, and up slightly as a percentage of GDP. As always, it is worth remembering that New Zealand's level of government debt remains very low by international standards.