NZCTU
Te Kauae Kaimahi

Economic Bulletin

July 2024

NEW ZEALAND COUNCIL OF TRADE UNIONS
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Economic Bulletin

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Welcome to the July 2024 Economic Bulletin. In our monthly feature we discuss the child poverty reduction targets announced by the government recently. Under the Child Poverty Reduction Act 2018, the government is required to set "intermediate targets" for child poverty reduction every three years. Strikingly, the targets announced for the three years to 2026/27 are less ambitious than the targets announced for the three years to 2023/24. The government has decided that it is happy to accept a higher rate of child poverty in New Zealand than previously targeted.

In our regular updates, we examine the employment and wage data for the June quarter. Unemployment and underutilisation are both rising steadily in the current economic downturn. Nominal wage growth slowed in the private sector, though was high in the public sector. Real wage growth, however, has been lacklustre in many industries due to high household living-costs inflation. We also provide an analysis of how real wages have fared from their peak in December 2020 through the inflationary shock of 2021 onwards. When deflated by the household living-costs price index, wages are still below their December 2020 level – New Zealand workers are, on average, receiving a lower real wage than they were three-and-a-half years ago.

We also look at consumer inflation and household living-costs inflation for the June quarter. Consumer inflation has continued to fall rapidly, coming down to 3.3% for the year ending June, which is close to the Reserve Bank's target range of 1–3% per annum. With the economy weakening faster than many expected, this may mean that the Reserve Bank begins to cut interest rates sooner than previously thought. Household living-costs inflation – a measure which includes the cost of interest payments – remained very high, at 5.4%.

Finally, we also look at the benefit data for the June 2024 quarter, and examine the latest migration, trade, consumer and business confidence, and housing statistics.

For the latest GDP data, and the most recent Crown accounts, please see the June Bulletin.

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

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Key data for trade unionists

Key economic indicators – June quarter 2024 (annual % change)

Inflation	Household living costs	Average wages	Unemployment rate	Official cash rate
3.3%	5.4%	5.0%	4.6%	5.5%

Annual wage growth – June quarter 2024

	Nominal	Real (consumer inflation)	Real (h.h. living costs)
All sectors – average *ordinary time* hourly wages	5.0%	1.7%	–0.4%
Public sector	7.9%	4.6%	2.5%
Private sector	4.0%	0.7%	–1.4%
Female	6.0%	2.7%	0.6%
Male	4.4%	1.1%	–1.0%
All sectors – average *overtime* hourly wages	7.3%	4.0%	1.9%
Public sector	10.3%	7.0%	4.9%
Private sector	5.9%	2.6%	0.5%
Female	3.5%	0.2%	–1.9%
Male	8.7%	5.4%	3.3%

Source: Stats NZ. Real (consumer inflation) is deflated by consumers price index year ending June 2024. Real (h.h. living costs) is deflated by household living-costs price index year ending June 2024. The household living-costs price index includes interest costs, so provides a fuller picture of the change in the cost of living compared to the consumers price index.

Annual inflation forecasts

	Reserve Bank	Treasury	Average
Sep 2024	3.0%	2.7%	2.8%
Dec 2024	2.9%	2.5%	2.7%
Mar 2025	2.8%	2.4%	2.5%
Jun 2025	2.6%	2.2%	2.4%

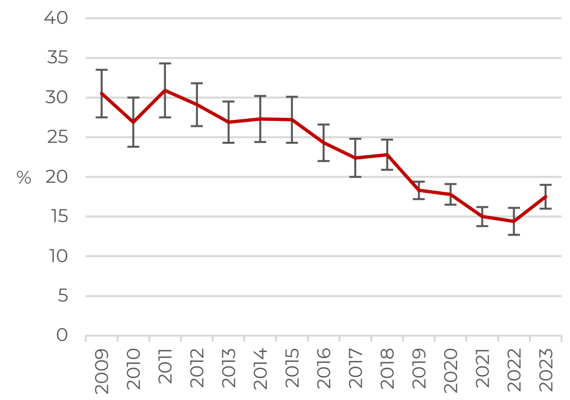
Source: RBNZ, Treasury, ANZ, ASB, BNZ, Westpac. The Average measure is the average of forecasts from the RBNZ, the Treasury, and the commercial banks.

The government has quietly deprioritised reducing child poverty

Among all the economic and political noise, it can be easy to miss the little shifts in government policy that signal an important story. One of these shifts occurred on 27 June, when the government put out its “Notice of Setting of Third Intermediate Targets Under the Child Poverty Reduction Act 2018”. There was no press release. Journalists weren’t briefed about the changes. But what these new targets showed was that the government intended to allow increased child poverty in New Zealand in the next three years.

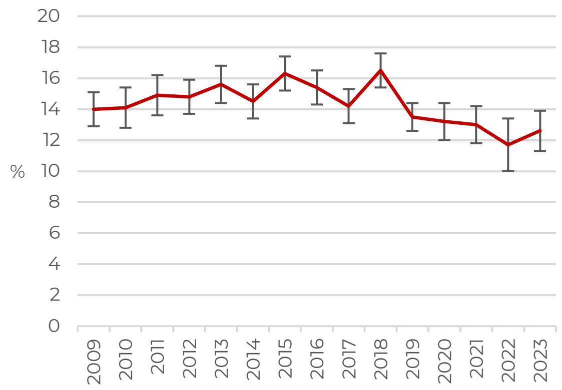
There is a significant and persuasive body of international and New Zealand evidence that poverty causes harm – particularly for children. To this end, previous governments, both National-led and Labour-led, have targeted assistance and measures to reduce the rates of child poverty. Rates of child poverty fell consistently on the after-housing-costs measure from 2011–2022, before lifting again in 2023 (Figure 1). They also fell significantly on the material hardship measure from 2013–2022 (Figure 3).

Figure 1: % of children living in poverty (after housing costs).



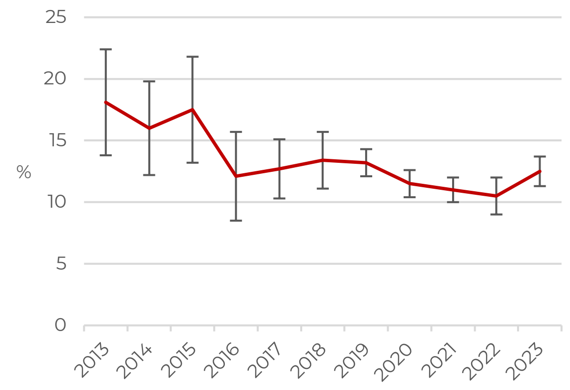
Source: Stats NZ.

Figure 2: % of children living in poverty (before housing costs).



Source: Stats NZ.

Figure 3: % of children living in material hardship.



Source: Stats NZ

These changes came about because governments increased welfare payments and lifted the minimum wage above inflation in some years. A buoyant labour market (until recently) has also made work better paid and more available. Between 2011 and 2022 it is estimated that the number of children living in poverty (after housing costs) halved, from approximately 335,000 children to 166,000. It is estimated that the number of children living in material hardship fell 39%, from approximately

196,000 children to 120,000. Real progress was being made with packages like Best Start (a payment made to parents during their children's early years) and the Winter Energy Payment.

Central to recent progress in this area has been the "intermediate targets" set by government every three years. These provide an indicator of how many more children the government plans to lift out of poverty across the next three years. These targets are required by the Child Poverty Reduction Act 2018. The target rates are set out in Table 1.

Table 1: Child poverty – key targets under the Child Poverty Reduction Act 2018.

Target	1st Intermediate Targets, by 2020/21	2nd Intermediate Targets, by 2023/24	3rd Intermediate Targets, by 2026/27
Low-income households on the before-housing-costs measure	From 16.5% falling to 10.5%	To 10%	To 12%
Low-income households on the after-housing-costs measure	From 22.8% falling to 18.8%	To 15%	To 14%
Material hardship measure	From 13.3% falling to 10.3%	To 9%	To 11%

Source: MSD.

As shown in the right-hand column, on two of the three measures, the government has decided it is happy to accept a larger number of children being in poverty than in the previous set of intermediate targets. Using the latest data from Statistics NZ, this will mean an additional 23,116 children living in poverty on both the after-housing-costs and material hardship measures. That's equivalent to the entire child (0–17-year-olds) population of Dunedin falling into poverty.

The material hardship measure is about more than just access to money. It means children are missing out on some of the most basic elements of life. Being in material poverty means you don't have access to items like suitable clothes or shoes. It means that you regularly feel cold at home, or that you live in a household that regularly can't afford to pay the utility bill. It means being unable to afford fresh fruit or vegetables. Allowing an increase in the number of children you will permit being in material hardship sems like a particularly cruel decision.

What this change appears to demonstrate is that the political consensus that New Zealand needs to tackle child poverty has ended. There were some earlier signs that this might happen. The first was Statistics NZ cancelling the Living in Aotearoa Survey, which was established to better understand child poverty – this was a decision made as part of the cost cutting exercise demanded by the coalition government. It means that New Zealand will be unable to understand how persistent child poverty impacts children, or how common persistent child poverty is in Aotearoa.

Second, the government has changed the language around child poverty. Poverty is no longer caused by a lack of access to sufficient income. The Child Poverty Report in the 2024 Budget said that "A key driver of child poverty is living in a benefit-dependent home". Given that the government essentially controls the incomes of benefit-dependent households, you might believe that this was something it could address. Instead, the government now believes that a "greater focus on work will address child poverty". We appear to be back in the game of blaming the poor for not working, rather than tackling the social causes of poverty.

With unemployment rising, the likelihood that work alone can provide a means out of poverty will diminish. This is especially the case given that the minimum wage was increased by less than inflation in 2024 – meaning that minimum wage workers are worse off in real terms even after the recent tax cuts. The poor are also much more likely to rent – and with property rental prices rising at their fastest rate on record, it is unclear how poverty will be reduced by stopping the state house building programme or by offering landlords $3 billion in tax advantages. Increasing welfare payments only by the rate of inflation rather than wage growth (one of the first acts of this current government) is expected to put an additional 13,000 children into poverty according to the Treasury. Put simply, the government's own actions are making child poverty worse.

These changes matter. Ending child poverty is one of the most important things New Zealand could do to improve its long-term wellbeing. An example here is rheumatic fever – a disease caused by poor housing and high heating costs. It has life-long impacts for children affected. Ending child poverty would also mean reducing New Zealand's high rates of rheumatic fever. These changes also matter because they give us some insight into the thinking and values of this government. The official reason why these reduced child poverty targets were chosen was to "make sure they are achievable". That suggests that the government is more interested in being able to hit its targets, than it is on making significant progress on ending child poverty.

The Child Poverty Reduction Act also requires the government to set long-term targets for reducing poverty. By 2027/28 we are to aiming to reduce child poverty to 6% on the material hardship measure. That's only one year after the current set of intermediate targets. This would require policy and spending measures to take 70,000 children out of material hardship in one year – something that to date had taken more than a decade to achieve. These new measures are essentially the government waving the white flag on these long-term targets.

Child poverty reduction targets are going to be missed with real world consequences. It is another example of the government pushing costs into the future rather than making the necessary investments today.

Employment

The job market continues to weaken. Unemployment increased from 4.4% in the March 2024 quarter to 4.6% in the June quarter. It has now risen a full percentage point since the same time last year, and is up 1.3 percentage points since the onset of the economic downturn at the end of the September 2022 quarter (see the June Bulletin for an analysis of this downturn).

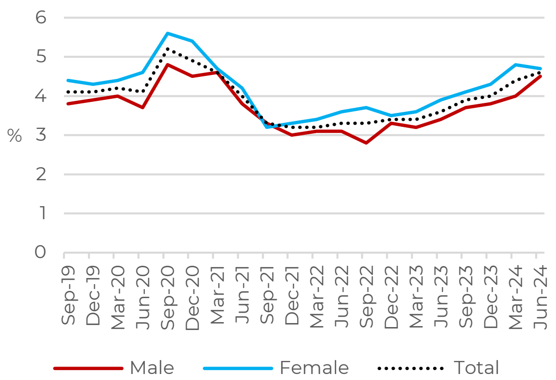
The underutilisation rate – which accounts for the unemployed, underemployed, and the potential labour force – rose from 11.2% in the March quarter to 11.8%. Underutilisation has now risen 1.9 percentage points compared to the same time last year, and 2.8 percentage points since the onset of the downturn. The increase in unemployment and underutilisation has been particularly sharp for Māori and Pasifika workers, as discussed below.

In real terms, this means approximately 143,000 people were unemployed in the June 2024 quarter (up 33,000 from one year ago), and a further 123,600 people were underemployed (up 20,500 from one year ago). Compared to the pre-recession low in September 2022, this means an additional 47,000 people are now unemployed and an additional 27,800 people are underemployed.

Labour force participation remained stable compared to the previous quarter, at 71.7%. It has fallen 0.7 percentage points compared to the same time last year. The labour force participation rate may be being held up by the large numbers of New Zealanders leaving the country. The employment rate also remained stable compared to the previous quarter, at 68.4%. It has fallen 1.4 percentage points from the same time last year.

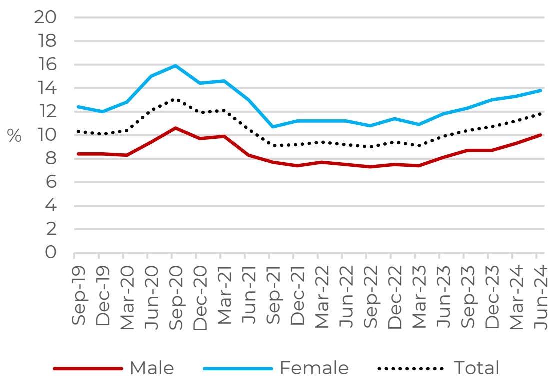
The female unemployment rate was estimated to have fallen from 4.8% in the March quarter to 4.7% in the June quarter. However, it is up 0.8 percentage points compared to the same time last year. Female underutilisation has risen from 13.3% in March to 13.8% in June and is up a full 2 percentage points since the same time last year. Female labour force participation was 67.4%, the same as the previous quarter, but down 0.6 percentage points from last year. The employment rate was 64.3%, up slightly from the previous quarter but down 1.1 percentage points comparted to last year.

Figure 4: Unemployment rate by sex.



Source: Stats NZ.

Figure 5: Underutilisation rate by sex.



Source: Stats NZ.

The male unemployment rate increased markedly, from 4% in March to 4.5% in June. It has risen 1.1 percentage points since last year. Male underutilisation also rose, up from 9.3% in March to 10%. It has risen 1.9 percentage points since last year. Labour force participation was up marginally from the previous quarter, at 76.1%, but down 0.9 percentage points from a year ago. The employment rate fell marginally from the previous quarter, to 72.7%; it has fallen 1.7 percentage points since last year.

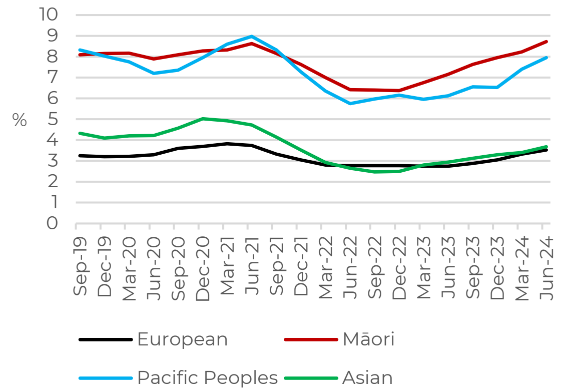
Stats NZ does not provide seasonally adjusted figures for employment rates by ethnicity, so we use annual average comparisons instead. For Pākehā, unemployment increased from 2.8% to 3.5% for the year to June 2024 and underutilisation increased from 8.6% to 10.1%.

For Māori, unemployment increased from 7.2% to 8.7% for the year to June 2024, and underutilisation increased from 15.8% to 18.1%. Because Māori are over-represented in precarious forms of work, the Māori unemployment rate typically increases faster than the Pākehā unemployment rate when the job market softens.

For Pacific peoples, who are also over-represented in precarious forms of work, unemployment increased from 6.1% to 8% over the past year, while underutilisation increased from 13.4% to 16.2%.

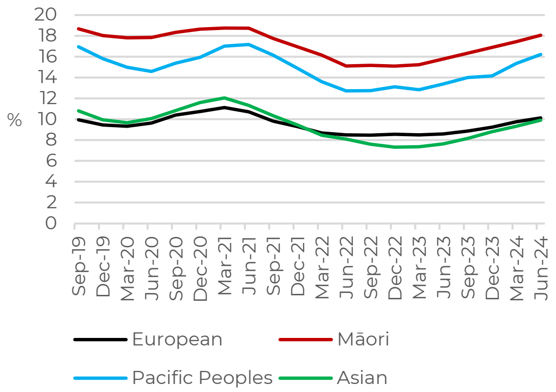
Finally, for Asian workers, whose unemployment and underutilisation rates are similar to Pākehā, unemployment increased from 3% to 3.7% in the year to June 2024 and underutilisation increased from 7.7% to 9.9%.

Figure 6: Unemployment rate by ethnicity.



Source: Stats NZ.

Figure 7: 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 June 2024 was 12.4%, which is up 1.2 percentage points from the previous year. In real terms this represents approximately 82,600 young people who are not in employment, education, or training.

Together with the latest wage data (discussed below), these employment figures continue to show a weakening job market. Forecasters expect that unemployment could peak around 5.5%. This will weaken workers' bargaining power and cause significant economic pain for those workers who are forced into unemployment or underemployment.

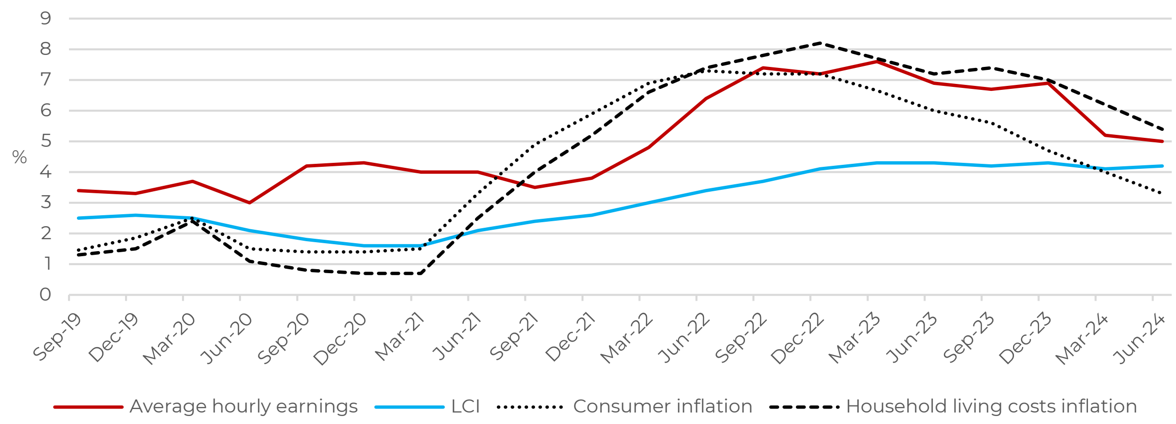
The government should be taking action to minimise further job losses and to provide supports to those who have found themselves unemployed or facing a more difficult entry into the labour market. In this context of weakening economic activity and rising unemployment, it is particularly lamentable that the government decided to ditch the social insurance scheme when it came into office. This scheme would have provided newly unemployed workers with a guaranteed income to help them while they searched for new work, and possibly retrained.

Wages

With unemployment rising and the economy cooling, nominal wage growth has continued to slow. Average ordinary time hourly earnings grew by 5% in the year to June 2024. They increased 7.9% in the public sector, to $49.56, and 4% in the private sector, to $39.39. Average hourly earnings increased 4.4% for men, to $43.44, and 6% for women, to $39.34.

The labour cost index (LCI), which measures the price for a fixed quality and quantity of labour – i.e., how much an employer must pay for the same skills and hours of labour each year, rather than the income received by workers – increased 4.3% annually, which is up slightly from the previous quarter. This measure covers salary and wage rates and includes overtime. The LCI increased 6.9% in the public sector compared to 3.6% in the private sector.

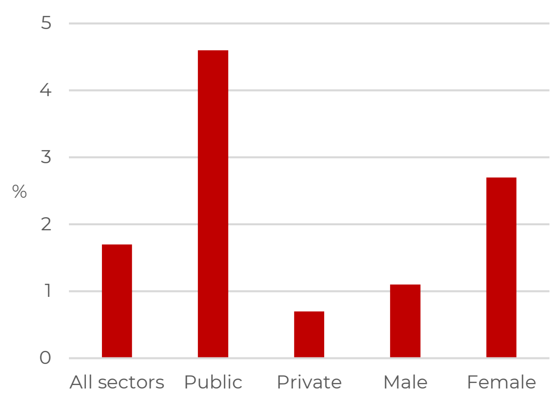
Figure 8: Annual growth in wages and labour costs.



Source: Stats NZ.

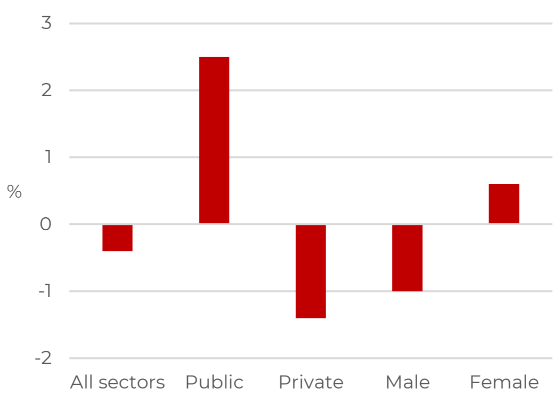
Although nominal wage growth remains relatively high, real wage growth has been far weaker. We use two measures of real wage growth: (1) nominal wage growth minus inflation as calculated by the consumers price index (CPI); and (2) nominal wage growth minus inflation as calculated by the household living-costs price index (HLPI). The latter measure provides a more accurate picture of changes in the cost of living as it includes interest payment costs, such as on mortgages. Consumer inflation was 3.3% in the year to June 2024, while household living-costs inflation was 5.4%.

Figure 9: Annual real wage growth, June 2024 (CPI deflated).



Source: Stats NZ.

Figure 10: Annual real wage growth, June 2024 (HLPI deflated).



Source: Stats NZ.

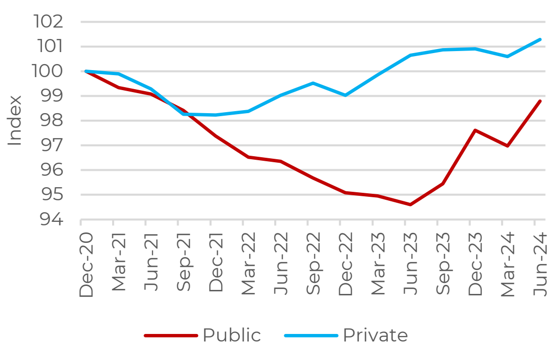
When deflated by consumer inflation, average hourly earnings grew 1.7% for the year to June 2024. However, when deflated by household living-costs inflation, they actually fell 0.4%. Public sector workers experienced strong real wage growth this past year, of 4.6% when deflated by consumer inflation and 2.5% when deflated by household living-costs inflation. However, public sector workers on average experienced a far larger decline in real wages than private sector workers through 2021 and 2022, as discussed below. When deflated by consumer inflation, private sector real wages grew 0.7%; however, when deflated by household living-costs inflation, they fell 1.4%.

Male workers on average experienced a 1.1% increase in real wages deflated by consumer inflation, but a real wage cut of 1% when deflated by household living-costs inflation. Female workers saw stronger real wage growth on both measures, with wages deflated by consumer inflation rising 2.7% and wages deflated by household living-costs inflation rising 0.6%.

Taking a slightly longer view, Figures 11 through 14 show how real wages have fared over the course of the cost-of-living shock. Real wages peaked in December 2020, before falling rapidly due to the unexpected inflation in 2021.

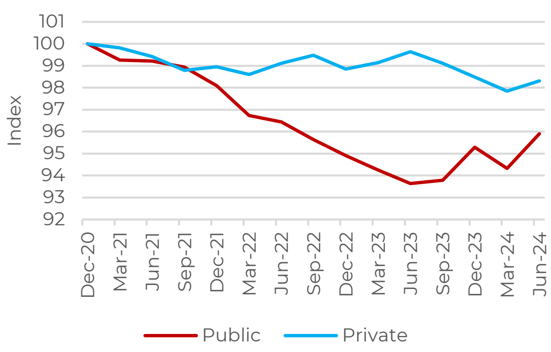
The public sector saw the largest decline in real wages from 2020 to 2023. Public sector wages deflated by consumer inflation (Figure 11) fell 5% from December 2020 to June 2023, before beginning to grow again. When deflated by household living costs (Figure 12), public sector wages fell by more than 6% over this same period, before beginning to grow again. On both measures, real public sector wages are still lower than they were in December 2020 – in other words, on average, public sector workers are worse off in real terms than they were three years ago.

Figure 11: Real wage growth by sector, 2020-24 (CPI deflated).



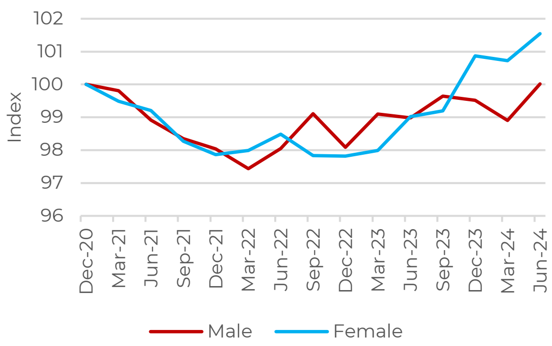
Source: Stats NZ. Dec 2020 = 100.

Figure 12: Real wage growth by sector, 2020-24 (HLPI deflated).



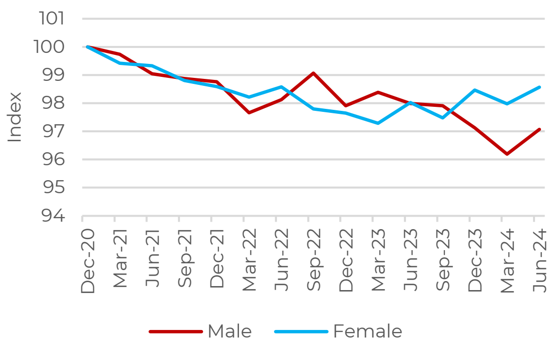
Source: Stats NZ. Dec 2020 = 100.

Figure 13: Real wage growth by sex, 2020-24 (CPI deflated).



Source: Stats NZ. Dec 2020 = 100.

Figure 14: Real wage growth by sex, 2020-24 (HLPI deflated).



Source: Stats NZ. Dec 2020 = 100.

By comparison, private sector wages deflated by consumer inflation (Figure 11) only fell 1.7% from December 2020 to September 2021. They then began to grow again and are now 1.3% above their 2020 level. When deflated by household living costs (Figure 12), however, private sector wages fell 2.2% from December 2020 to March 2024. They grew in the previous quarter but remain below their 2020 level.

By gender, women have experienced better real wage outcomes than men over the past four years, though on average continue to receive a lower wage than men. Deflated by consumer inflation (Figure 13), average wages for women fell a total of 2.2% from December 2020 to December 2022. They grew strongly from there and are now 1.5% above their 2020 level. When deflated by household living costs (Figure 14), however, average real wages fell 2.7% from December 2020 to March 2023, and remain below their 2020 level. It is likely that the faster increase in wages for women over this period is partially the result of large minimum wage hikes over 2022 and 2023.

For men, average real wages deflated by consumer inflation (Figure 13) declined at approximately the same rate over 2021, falling a total of 2.6% to March 2022. However, they haven't seen the same level of recovery as for women and are now at the same level they were in 2020. When deflated by household living costs (Figure 14), average wages for men fell a total of 3.8% from December 2020 to March 2024. The increased in the past quarter but remain 3% below their 2020 level.

Table 2: Annual average wage growth to June 2024 (%).

		Real	
	Nominal	CPI deflated	HLPI deflated
All sectors (average hourly wages)	**5.0**	**1.7**	**–0.4**
Public sector	7.9	4.6	2.5
Private sector	4.0	0.7	–1.4
Female	6.0	2.7	0.6
Male	4.4	1.1	–1.0
All industries (average total hourly earnings)	**5.1**	**1.8**	**–0.3**
Health care and social assistance	7.6	4.3	2.2
Public administration and safety	7.4	4.1	2.0
Information media and telecommunications	7.0	3.7	1.6
Construction	6.8	3.5	1.4
Education and training	6.4	3.1	1.0
Finance and insurance services	5.1	1.8	–0.3
Forestry and mining	4.9	1.6	–0.5
Arts, recreation, and other services	4.7	1.4	–0.7
Transport, postal, and warehousing	4.3	1.0	–1.1
Retail trade	3.9	0.6	–1.5
Prof, sci, tech, admin, and support services	3.8	0.5	–1.6
Wholesale trade	3.5	0.2	–1.9
Manufacturing	2.5	–0.8	–2.9
Electricity, gas, water, and waste services	2.2	–1.1	–3.2
Rental, hiring, and real estate services	2.0	–1.3	–3.4
Accommodation and food services	1.1	–2.2	–4.3

Source: Stats NZ. CPI is consumers price index. HLPI is household living-costs price index.

By industry, average total hourly earnings (which are calculated by dividing total gross earnings by total paid hours) increased 5.1% overall. The largest increases were in healthcare, up 7.6%, public administration and safety, up 7.4%, information media and telecommunications, up 7%, and construction, up 6.8%.

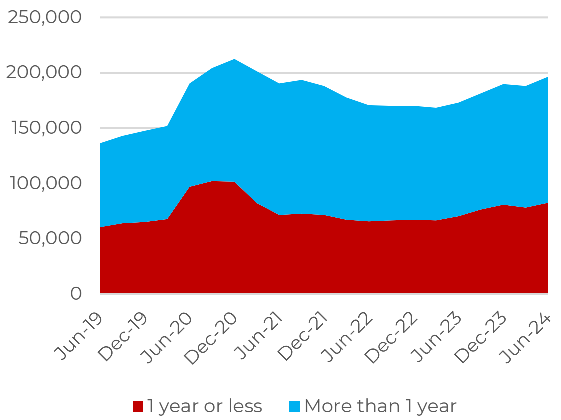
As Table 2 shows, when deflated by CPI, most industries that Stats NZ reports on experienced real wage growth, with only four experiencing a decline in their real wages. However, when deflated by the HLPI, only five industries experienced real wage growth. With the jobs market weakening, and unemployment expected to rise significantly, we expect that nominal wage growth will continue to cool over the rest of the year. What happens with real wages will be in part determined by how consumer inflation tracks and if the Reserve Bank lowers interest rates.

Social welfare

The Ministry of Social Development's quarterly benefit statistics show that, at the end of June 2024, 380,889 people were receiving a main benefit, which is up 8.3% from the previous year. Of those receiving a main benefit, 113,931 people were receiving Jobseeker Support – Work Ready, up 14.8% annually – this reflects the weakening job market. In addition, 82,506 people were receiving Jobseeker Support – Health Condition or Disability, up 11.7% annually; 103,152 people were receiving the Supported Living Payment, up 2.3% annually; and 76,959 were receiving Sole Parent Support, up 2.3% annually.

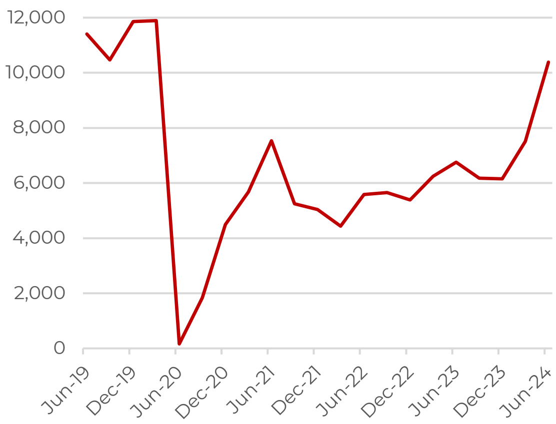
The proportion of the working-age population receiving Jobseeker Support was 6.2%, which is up from 5.5% in 2023, but the same level as it was in 2020 and 2021. The proportion receiving the Supported Living Payment was 3.2%, which is the same as the previous year. The proportion receiving the Sole Parent Support was 2.4%, which is the same as the previous year.

Figure 15: Jobseeker recipients by duration of benefit.



Source: MSD.

Figure 16: Benefit sanctions.



Source: MSD.

Of total Jobseeker Support recipients, 58.1% had been receiving the benefit for one year or more – which is down slightly from the previous quarter. This proportion has remained relatively consistent over the past five years. Contrary to the claims of the 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.

There were 10,389 benefit sanctions issued, which was up 53.7% from the same time last year but comparable to the level in 2019. Of this, 6,069 sanctions were issued to clients for 'not attending appointments' and 3,360 were issued to clients for 'failing to prepare for work'.

Of total Jobseeker recipients, 57.2% were male, 42% female, and 0.8% gender diverse. Of those who reported their ethnicity, 48.8% were Pākehā, 40.1% were Māori, 13.2% were Pacific Peoples, 6.3% were Asian, and 6.2% were other ethnicities. By age group, 21.5% were aged 18–24, 31.6% were aged 25–39, 26.6% were aged 40–54, and 20.3% were aged 55–64.

During the June 2024 quarter, there were 540,516 hardship assistance payments worth a total of $214.1 million. Of this, there were 291,495 special needs grants for food, for a total value of $29.4 million. The overall number of hardship assistance payments is down 11.1% compared to a year ago and the total value of payments is down 13.8%. This may indicate that the cost-of-living crisis isn't biting as hard now as it was one year ago.

Prices

Consumer inflation

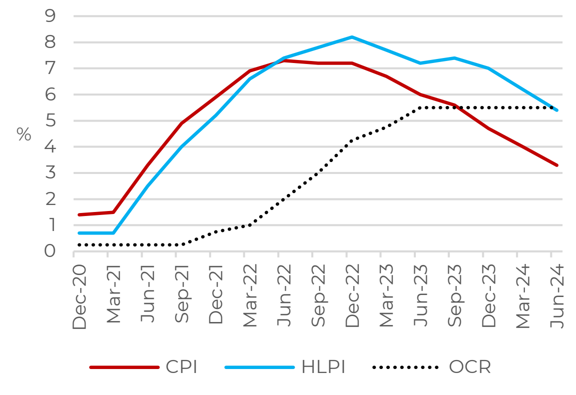
Consumer inflation continued its rapid descent this past quarter and was 3.3% for the year ending June 2024. Quarterly inflation was 0.4%, which is within the Reserve Bank's target range. New Zealand's annual inflation rate is now below that of Australia (3.8%) and close to that of the United States (3%), Canada (2.7%), and the United Kingdom (2.8%).

This decline in the rate of inflation continues to be driven by the rapid fall in tradeable inflation (goods and services that are imported or are exposed to international competition). Annual tradeable inflation was 0.3% for the year ending June 2024, while quarterly tradeable inflation was -0.5%. Non-tradeable inflation (goods and services that do not face foreign competition) remains elevated but does appear to be falling consistently. Annually, non-tradeable inflation was 5.4% for the year ending June 2024, compared to 5.8% for the year ending March. On a quarterly basis, non-tradeable inflation was 0.9%, which is down from 1.6% in the previous quarter.

The largest contributors to the quarterly inflation figure were insurance, up 3.1%; rents, up 1.2%; new housing, up 0.9%; household electricity, up 24.5%; and alcohol, up 1.5%. On the other side of the equation, prices fell 6.6% for fruit and vegetables; second-hand vehicle prices fell 5.5%; and recreational and cultural equipment prices fell 1.9% overall.

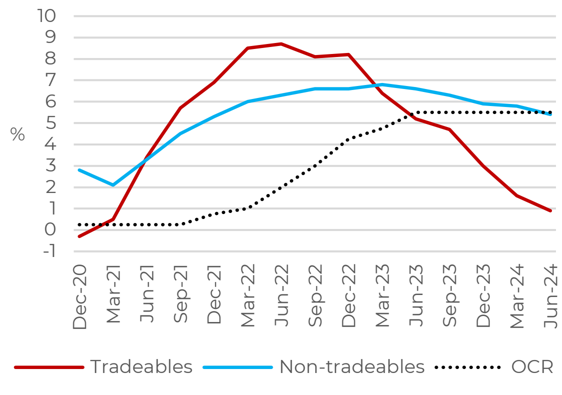
Annually, the largest contributor to consumer inflation was the housing and household utilities group, which increased 4.4%. This was driven by a 4.8% increase in the cost of renting, a 3% increase in the cost of new housing, a 9.6% increase in the cost of property rates, and a 4% increase in the cost of energy. Other major contributors were the cost petrol, up 14.7%; dwelling insurance, up 23.8%; vehicle insurance up 23.7%; and alcohol and tobacco, up 6.9%. On the other side, the cost of fruit and vegetables fell 13.6% and the cost of international air travel fell 13%.

Figure 17: Annual rate of inflation.



Source: Stats NZ.

Figure 18: Annual rate of tradeable and non-tradeable inflation.

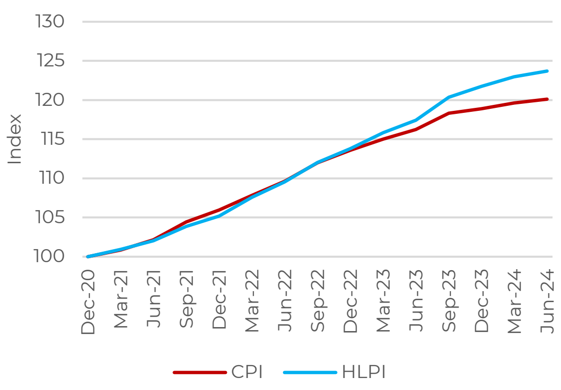


Source: Stats NZ.

Figure 17 shows the annual rate of inflation for the consumers price index (CPI) and the household living-costs price index (HLPI). Figure 18 shows the annual rate of inflation in tradeables and non-tradeables inflation, as captured in the CPI. Figure 19 overleaf shows total inflation over the period December 2020 to June 2024. It shows that the basket of consumer goods and services that is used to calculate the CPI has increased 20% in price during this period, while the HLPI – a measure which also includes interest payment costs – has increased 24%.

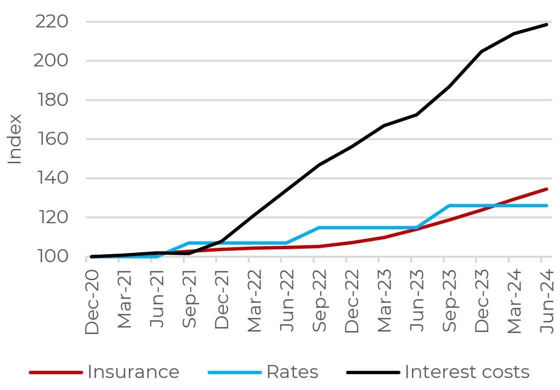
As we've discussed in previous Bulletins, the drivers of inflation right now are services that the Reserve Bank has limited ability to influence using the Official Cash Rate. Specifically, inflation is being powered by things like insurance, rent, and rates; higher interest rates will do nothing to bring this inflation down. Figure 20 shows total inflation in insurance, rates, and interest costs from December 2020 to June 2024. It shows that interest payment costs have more than doubled over this period, while rates have increased 25% and insurance has increased 35%. Property rental prices have increased 15%.

Figure 19: Consumer and household living-costs inflation, 2020–24.



Source: Stats NZ. Dec 2020 = 100.

Figure 20: Insurance, rates, and interest cost inflation, 2020–24.



Source: Stats NZ. Dec 2020 = 100.

With the economy now in a severely weakened state, 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. Forecasters are also now expecting the Reserve Bank to cut rates sooner than previously thought – with many expecting at least one rate cut in 2024. Inflation expectations for 1 and 2 years out are now back in the Reserve Bank's target range.

However, it's worth noting that, with non-tradeables inflation remaining high, we are relying on tradeables inflation staying low if overall inflation is to return to the target range of 1–3%. Any further international shocks that, for example, drive oil prices higher, would make this return to target less likely; consequently, it would also make it less likely that the Reserve Bank would lower interest rates.

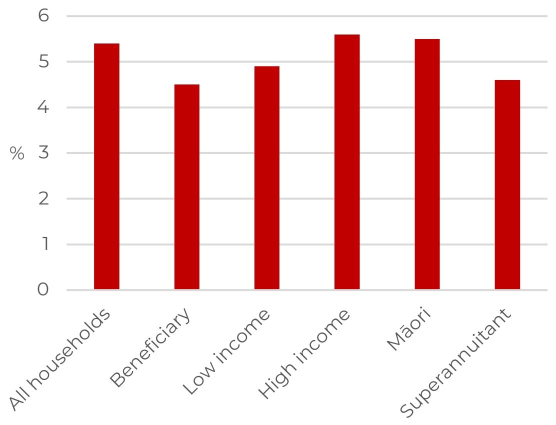
Household living costs

The household living-costs price indexes (HLPI) detail changes in the cost of living for different household groups. Unlike the consumers price index (CPI) discussed above, 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 than the CPI does.

The cost of living for all household groups increased 5.4% in the year ending June 2024. This continues the decline in household living-costs inflation since the peak of 8.2% in December 2022, when interest rate increases had really started to bite. The quarterly increase in household living costs was 0.6%. Household living-costs inflation has remained elevated relative to consumer inflation because interest costs are high; perversely, the mechanism used to reduce inflation – higher interest rates – actually increases the cost of living in the short run.

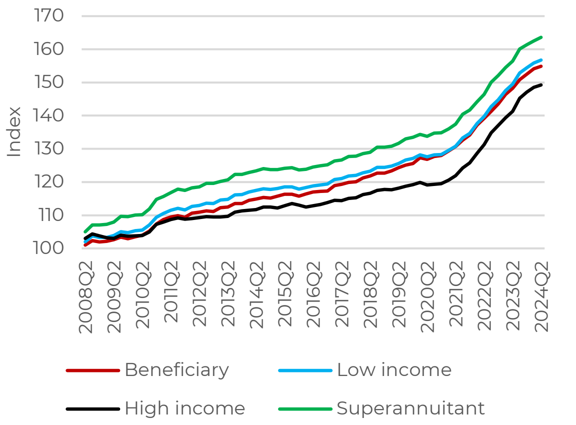
Annually, living costs increased 4.9% for households in the lowest income quintile, 5.5% for Māori households, 4.5% for beneficiary households, and 4.6% for superannuitants. Against the long-run trend, households in the top income quintile continued to experience a higher increase in the cost of living, at 5.6%. This is likely because of the comparatively larger debt burdens carried by these households.

Figure 21: Annual household living-costs inflation, June 2024.



Source: Stats NZ.

Figure 22: Cost of living increase, selected households, 2008–24.



Source: Stats NZ.

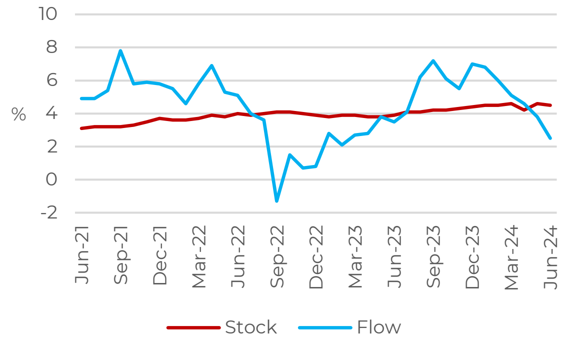
Monthly price indicators

Food price inflation remains low compared to overall inflation. Overall food prices fell 0.3% in the year to June. The price of fruit and vegetables fell 16.1% for the year and the price of meat, poultry, and fish fell 1.4%, while the price of grocery food increased 2.3%.

Figure 23: Annual food price inflation.

Source: Stats NZ.

Figure 24: Annual rent price inflation.



Source: Stats NZ.

Compared to June 2023, rents increased 2.5% on the flow measure and 4.5% on the stock measure. The flow measure captures price changes of new tenancies while the stock measure captures price changes across the whole rental population. On the flow measure, rent price inflation was 1% in Auckland, 2.2% in Wellington, 3.3% in the rest of the North Island, 4.2% in Canterbury, and 3.8% in the rest of the South Island.

In transport, the price of petrol has increased 11.6% compared to the same time last year, while the price of diesel has increased 5.7%. For the week ending 2 August 2024, MBIE's fuel-price monitoring had regular petrol at \$2.81 per litre and diesel at \$2.10 per litre. Oil is currently trading around US\$75 per barrel on the West Texas Intermediate, which is a leading indicator of price pressures in New Zealand. This is down from \$84 at the start of July.

Table 3: Monthly price indicators.

	Monthly % change	Annual % change
Food	1.0	–0.3
Fruit and vegetables	2.3	–16.1
Meat, poultry, fish	0.0	–1.4
Groceries	1.3	2.3
Rent (stock)	0.3	4.5
Rent (flow)	–1.2	2.5
Petrol	–4.6	11.6
Domestic air travel	–0.5	–4.2
International air travel	4.0	–11.3
Domestic accommodation	–1.9	–3.9

Source: Stats NZ.

Central bank interest rates

The Official Cash Rate (OCR) remains unchanged since our last Bulletin, at 5.5%. The Reserve Bank has previously indicated that it doesn't plan to cut rates until mid-2025. However, with the economy weakening faster than many people expected, many forecasters are now expecting that rate cuts may begin sometime in 2024. The next decision on the OCR will be announced on 14 August.

Internationally, some developed economy central banks have started to ease interest rates. The Bank of England, the Bank of Canada, and the European Central Bank have now all begun to ease interest rates.

Real estate

The housing market has weakened in recent months. As of June 2024, the REINZ house price index was up 1.3% from the same time last year, but down 16.4% from its late-2021 peak. The national median house price for June 2024 was $770,00, which is down 1.3% annually. The monthly indicators continue to show a weakening of house prices across the country. The Wellington and Auckland markets are particularly weak, as shown in the table below.

Table 4: REINZ house price index, percentage change, June 2024.

	3 months	1 year	5 years*	From peak
National	–2.3	1.3	5.4	–16.4
National excl. Auckland	–2.4	1.6	6.5	–12.7
Auckland	–2.1	0.4	3.6	–22.1
Wellington	–3.5	1.4	4.0	–24.0
Canterbury	–1.8	4.1	8.4	–6.2

** Compound annual growth rate*

Source: REINZ.

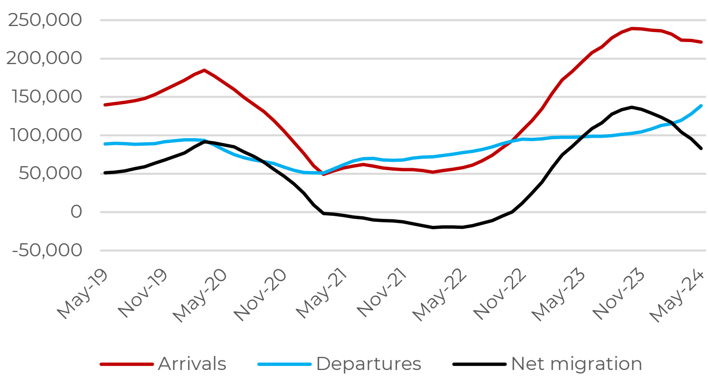
Economy

Migration

Net immigration remains very high but has been falling from its record levels. For the year ending May 2024, there were an estimated 221,400 migrant arrivals and an estimated 138,600 migrant departures. This produced an estimated net migration gain of 82,800 people for the year (compared to 97,500 the year prior). The decline in net immigration has in large part been driven by rising outflows of New Zealand citizens, many of whom have moved to Australia.

The high level of net immigration has been driven by citizens of India, with an estimated 46,400 net arrivals, the Philippines, with an estimated 28,600 net arrivals, and China, with an estimated 23,500 net arrivals for the year ending May. The net outflow of New Zealand citizens keeps breaking records, with an estimated net outflow of 60,100 New Zealanders in the year to May.

Figure 26: Annual migration flows.



Source: Stats NZ.

Overseas merchandise trade

In the year to June 2024, the value of goods exports and imports were both down compared to the previous year. Total good exports were valued at $68.7 billion, down 5.4% from the previous year. Total goods imports were valued at $78.1 billion, down 12% from the previous year. This produced an annual goods trade deficit of $9.4 billion, which is down from the deficit of $16.1 billion recorded in the year ended June 2023. As shown in Tables 5 and 6, the decline in exports and imports is broad based.

Table 5: Main goods exports by value, year ending June 2024.

	$ millions	% change from previous year
Milk powder, butter and cheese	19,046	–10.2
Meat and edible offal	8,652	–5.6
Logs, wood, and wood articles	4,688	–6.3
Fruit	4,036	9.4
Preparations of milk, cereals, flour, and starch	2,506	–6.3
Mechanical machinery and equipment	2,461	7.8
Wine	2,110	–12.2
Fish, crustaceans, and molluscs	1,966	1.8
Casein and caseinates	1,568	–17.9
Aluminium and aluminium articles	1,567	0.7

Source: Stats NZ.

Table 6: Main goods imports by value, year ending June 2024.

	$ millions	% change from previous year
Petroleum and products	10,746	–12.1
Mechanical machinery and equipment	10,622	–8.7
Vehicles, parts, and accessories	10,352	–12.3
Electrical machinery and equipment	7,029	–9.0
Textiles and textile articles	3,081	–10.4
Optical, medical, and measuring equipment	2,737	–0.6
Plastic and plastic articles	2,537	–13.6
Pharmaceutical products	2,294	–9.9
Iron and steel, and articles	1,635	–28.6
Food residues, wastes, and fodder	1,486	–18.9

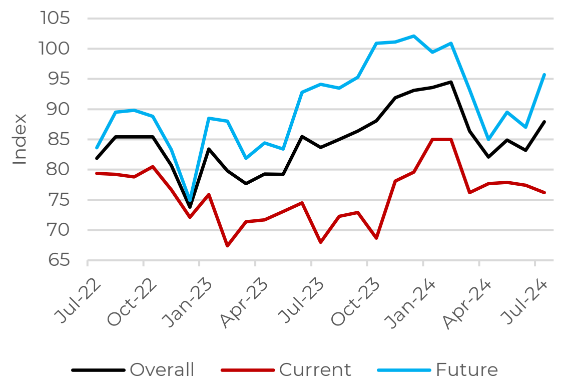
Source: Stats NZ.

Consumer and business confidence

The ANZ–Roy Morgan Consumer Confidence Index rallied somewhat in July, rising 5 points to 87.9. However, this remains very low by historical standards. 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. The long-run average of the survey is 114.

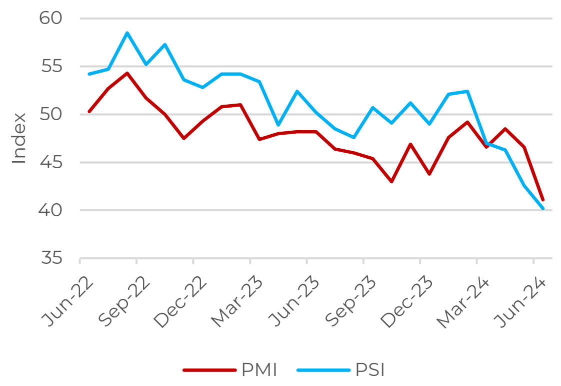
Confidence in future economic conditions rose 9 points to 95.7 and confidence in current economic conditions rose 2 points to 77.4. A net 30% of those surveyed think it is a bad time to buy a major household item. This question is seen as a leading indicator of consumer confidence and future economic activity. A net 18% of those surveyed reported they were worse off financially than one year ago, which is close to the previous survey. However, a net 20% expect to be better off financially by this time next year, which is up 12 points from the previous month. A net 32% of respondents expect mostly 'bad times' are ahead for the New Zealand economy over the next 12 months.

Figure 27: ANZ–Roy Morgan Consumer Confidence Index.



Source: ANZ.

Figure 28: BNZ–BusinessNZ PMI and PSI.



Source: BusinessNZ.

ANZ's Business Outlook Survey for July also rallied, rising 21 points to +27. This indicates that businesses generally are feeling more confident in the economic outlook than they were last month. Confidence was flat in retail, at +25; it rose 13 points in manufacturing to +33; it rose 53 points in agriculture to +18; it rose 8 points in construction to +20; and it rose 29 points in services to +30. The "own activity" outlook was positive across the five sectors. However, employment intentions were negative across all sectors, except for manufacturing.

Performance indexes

The BNZ–BusinessNZ performance of manufacturing index (PMI) and performance of services index (PSI) show that economic activity was very weak in these sectors in June. A figure above 50 indicates that activity is generally expanding, while a figure under 50 indicates it is generally declining.

For June 2024, the manufacturing index moved down 5.5 points to 41.1, which is close to its lowest level outside of a lockdown month. The PMI has been registering a contraction for over a year now, driven by low demand and low production.

The PSI also fell in June, down a further 2.4 points to 40.2. This is the lowest level of activity that has been recorded since the survey began in 2007, outside of a Covid lockdown month. As with the PMI, very weak sales activity and new orders are the main driver of this weak result – this indicates that consumers are not spending.

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 slowdown in demand and "tough recessionary times" as major concerns.

Building consents

In June 2024, seasonally adjusted residential dwelling consents fell 14% from the previous month, having fallen 1.9% the month prior. For the year to June 2024, consents fell 24% to 33,627. Building consents are now hovering around their 2017 levels, which is a big concern given New Zealand's chronic housing shortage and growing population. Construction is heavily affected by economic downturns. This ongoing downswing in construction is being driven by the Reserve Bank's interest rate hikes which is driving up the cost of borrowing for construction firms.

Of the major regions, consents were down 27% annually in Auckland, 29% in the Waikato, 36% in Wellington, and 16% in Canterbury. Nationally, consents per 1,000 residents were 6.4, compared with 8.6 the same time one year ago, and well down from the level of 9.9 recorded in 2022.