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Commentary

Working people's share of income – a brief New Zealand history

Summary

The share of income that working people receive from all the income generated by their work – the labour income share – is important for many reasons and has long been of interest. It is a measure of income inequality because the richest people in the country tend to make most of their money from "unearned" income from wealth such as dividends, interest and capital gain rather than work – the capital income share. If the labour income share is falling it can mean that wages are not keeping up with rising productivity. It is also a way to compare wages (and the cost of labour to employers) between countries. New Zealand's labour income share fell steeply after the 1980s – one of the sharpest falls in the OECD. The share going to wages and salaries is low compared to most other OECD countries.

Current official data goes back to 1972. What happened before then and how it has changed over our history. Has New Zealand's labour income share always been low? Other income inequality measures show high inequality in the early part of the 20th century, falling during the 1940s and 50s with the welfare state, stronger unionism and collective bargaining and progressive tax systems, but rising back to high levels since the 1980s. Is the labour income share similar?

In short, there was a rise in the income share for wage and salary earners between the 1940s and 1970s and a steep fall from the early 1980s. The fall resulted from a combination of wage freezes, radical restructuring of the economy and the state, deregulation and individualisation of employment relationships and deunionisation. It brought the labour share far below the OECD median and comparable economies.

Part of the reason for the pre-1970s rise was the fall in self-employment (dominated by farming), many becoming employees. By 2016, the self-employed had their lowest share of income since 1939. The largest beneficiary was corporate profits which rose to a 19 percent share in 2016, a level reached before only in 1940 under wartime conditions.

Labour productivity and real wages (wages after taking account of inflation) appear to have been closely in sync only during the period 1947 to 1974 when New Zealand's industrial conciliation and arbitration system of collective bargaining extended by awards was working relatively well. From about 1990, under the deregulated employment conditions resulting from the Employment Contracts Act 1991, real wage growth fell behind productivity growth.

The share of income that working people receive from all the income generated by their work – the labour income share – is important for many reasons and has long been of interest. It is a measure of income inequality because the richest people in the country tend to make most of their money from "unearned" income from wealth such as dividends, interest and capital gain rather than work – the capital income share. If the labour income share is falling it can mean that wages are not keeping up with rising productivity. It is also a way to compare wages (and the cost of labour to employers) between countries. New Zealand's labour income share fell steeply after the 1980s – one of the sharpest falls in the OECD. The share going to wages and salaries is low compared to most other OECD countries.

Current official data goes back to 1972 and I got interested in what happened before then and how it had changed over our history. Has New Zealand's labour income share always been low? Other income inequality measures show high inequality in the early part of the 20th century, falling during the 1940s and 50s with the welfare state, stronger unionism and collective bargaining and progressive tax systems, but rising back to high levels since the 1980s. Is the labour income share similar?

In this commentary I'm summarising what I found after gathering and analysing a lot of historical data for a chapter in a new book, "Transforming Workplace Relations" being brought together by Professor Gordon Anderson published in November by Victoria University Press. A pre-press version of the full paper and a technical appendix and spreadsheet are available at http://bit.ly/2tmg2Lb.

In short, there was a rise in labour income share to the 1970s and a steep fall from the early 1980s. The fall resulted from a combination of wage freezes, radical restructuring of the economy and the state, deregulation and individualisation of employment relationships and deunionisation. It brought the labour share far below the OECD median and comparable economies. Part of the reason for the pre-1970s rise was the fall in self-employment (dominated by farming). By 2016, the self-employed had their lowest share of income since 1939. The largest beneficiary was corporate profits which rose to a 19 percent share in 2016, a level reached before only in 1940 under wartime conditions. Looking at productivity, labour productivity and real wages (wages after taking account of inflation) appear to have been closely in sync only during the period 1947 to 1974 when New Zealand's industrial conciliation and arbitration system of collective bargaining extended by awards was working relatively well. From about 1990, real wage growth fell behind productivity growth.

What is the labour income share?

The concept is simple – what proportion or percentage of the income that you generate from your work do you get back in your pay, and how much goes to your employer in profits or to banks and other lenders in interest on the debt your employer owes.

On a national basis, the total income generated is part of the National Accounts (compiled by Statistics New Zealand and its predecessor, the Department of Statistics). It is the income that is generated from the production from all the paid work done in the economy, Gross Domestic Product (GDP), and is called Gross Domestic Income. A part of that is Compensation of Employees which is the total wages and salaries (I'll just call them wages) paid to all employees, plus some other employment costs such as ACC levies and employers' contributions to KiwiSaver and other superannuation schemes. The rest is called Operating Surplus, which is broadly speaking the income going to the owners of capital (machinery, equipment, buildings and financial wealth for example). Statistical series for these exist in various forms going back to 1939. They have been compiled using different methods over the years this needs to be born in mind when interpreting the data and some transforming of the data is necessary to as best as possible make them consistent. See the technical appendix for details.

Part of Operating Surplus is the income going to self-employed people for their labour (as opposed to the return they get on the capital in their businesses) and is called "mixed income" because in fact it is rarely possible to quantify what is paid for their labour and what is paid for their capital income. There are various ways to approximate that though it is always somewhat artificial. There are therefore two forms of labour income share: one including the self-employed – which I call the *adjusted* labour income share – and one including only wages and salaries. It is important to look at both because as we know, people move between being an employee and being self-employed and shifts in the wage-only labour income share can occur simply because of that. Historically there has been a big move out of self-employment (mainly farming), but there are concerns now that people are being forced into forms of self-employment that are very low paid but without the protections that employees have such as minimum wages, paid leave and the right to join together to negotiate collectively.

Otherwise, shifts in the labour income share occur because wages are rising or falling strongly relative to profits. This can be because of changes affecting the bargaining power of workers compared to employers (such as changes in employment legislation, wage freezes, or the opening of the economy to imports or offshoring of jobs), changes in technology which mean fewer people are employed or are employed at lower wages, and temporary shifts during downturns or upturns in the economy.

The operating surplus can be further divided into corporate profits, the notional rent that home-owners save from owning a house (called the imputed rents of owner-occupied dwellings), the income going to overseas owners of assets in New Zealand (less the income from overseas investment by New Zealand residents), and the amount necessary to replace worn-out, obsolete or accidentally damaged plant and equipment, called “consumption of fixed capital” which is like depreciation. Consumption of fixed capital should not be income for distribution to workers or owners of capital because it should be used to prevent deterioration in the economy’s assets, and in this analysis I look at shares of income without it, which is called Net Domestic Income (NDI): Gross Domestic Income less Consumption of Fixed Capital.

The Labour Income Share since 1939

Figure 1 on the next page shows the history since 1939 of both labour income shares: wages only, and adjusted for self-employed labour income.

The first Labour Government was elected in 1935 and embedded and extended a system of industrial conciliation and arbitration that had its beginnings at the end of the 19th century. It introduced a raft of legislation protecting and enhancing working conditions including compulsory union membership, a minimum wage, and maximum work hours based on a 40-hour week, backed by a greatly enhanced system of social security and state housing. Rates of pay and conditions for the majority of workers were set in awards: collective agreements approved by the Arbitration Court applying to a whole industry. These could be determined by the Arbitration Court if bargaining between employee and employer unions did not reach a settlement. The Court could also make general wage orders, an increase in all award wages. It was tripartite, making decisions jointly with union and employer representatives.

As Figure 1 shows, the labour income share increased sharply during the war when many people joined the armed forces becoming wage earners, then fell just as sharply. Following the war, when wages and prices were strictly controlled, there was strong industrial action in the face of the removal of price controls which created up to 10 percent annual inflation. There were general wage orders in June 1950

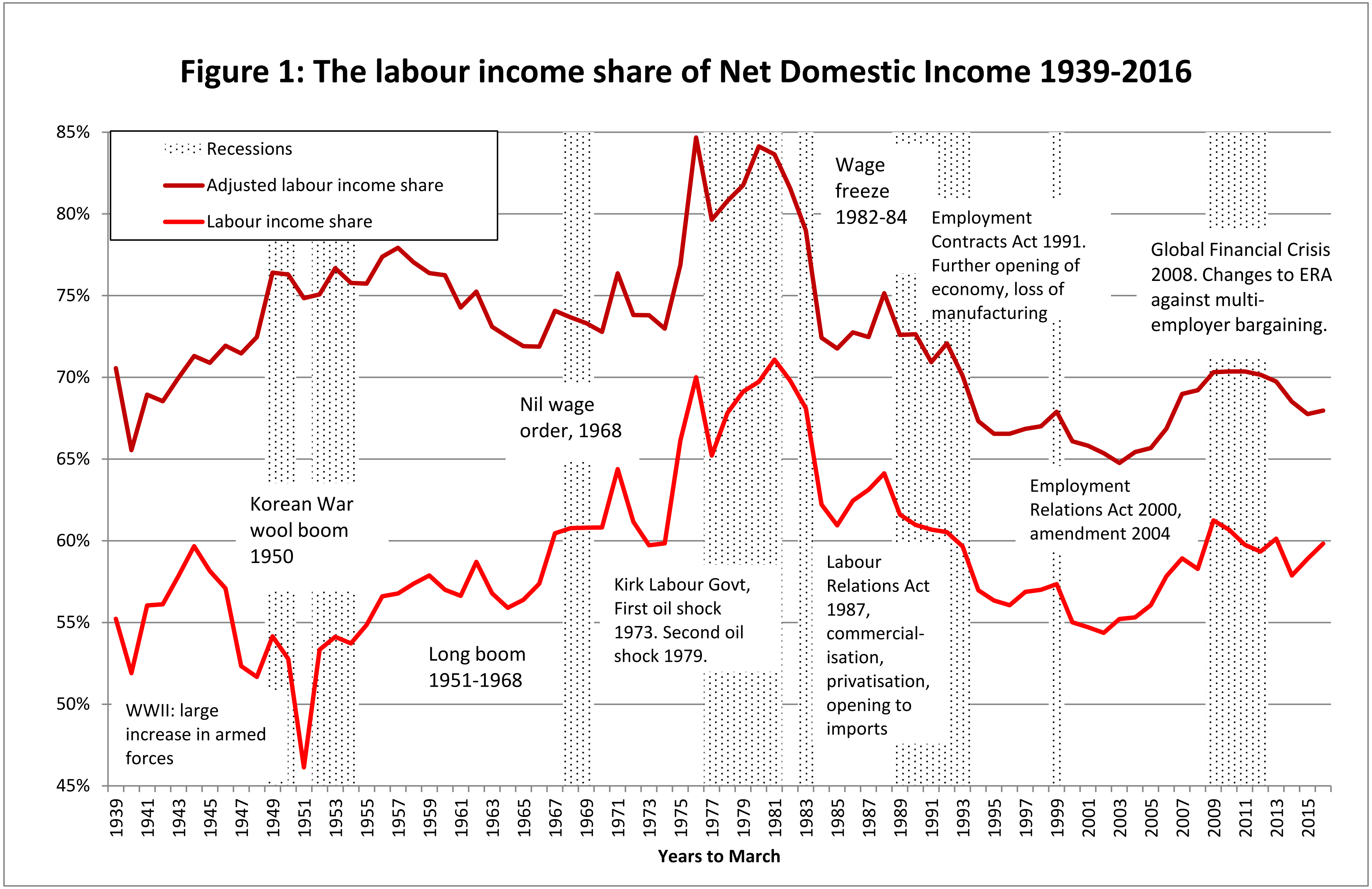
Figure 1: The labour income share of Net Domestic Income 1939-2016
Recessions
Adjusted labour income share
Labour income share
85%
80%
75%
70%
65%
60%
55%
50%
45%
Wage freeze 1982-84
Employment Contracts Act 1991. Further opening of economy, loss of manufacturing
Global Financial Crisis 2008. Changes to ERA against multi-employer bargaining.
Nil wage order, 1968
Korean War wool boom 1950
Employment Relations Act 2000, amendment 2004
Labour Relations Act 1987, commercial-isation, privatisation, opening to imports
Kirk Labour Govt, First oil shock 1973. Second oil shock 1979.
Long boom 1951-1968
WWII: large increase in armed forces
1939
1941
1943
1945
1947
1949
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1961
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1971
1973
1975
1977
1979
1981
1983
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1991
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2013
2015
Years to March

and February 1951 totalling 15%. By the year to March 1951 average real wages had risen 8% above their level at the end of the war from $14.47 to $15.68 in June 2016 dollars. The Korean War in 1950 brought a windfall increase in wool prices which created a huge increase in profits so that though wages continued to rise, their share of income was swamped by profits creating a sharp dip in the labour income share.

From the early 1950s until the early 1970s was a period of almost uninterrupted economic growth with a recession only in the late 1960s. Average growth in GDP between 1953 and 1967 was a strong 4.4 percent per year; economist Brian Easton has called it "The Long Boom". Unemployment was between 1.0 and 1.4 percent (slightly higher for women). Wages grew steadily in real terms – real average hourly wages rose at an annual rate of 1.4 percent between 1953 and 1967 (from $15.34 to $18.52 in June 2016 dollars) and closely followed labour productivity growth, as well as I can measure it – the only extended time in the whole period from 1939 until today when this was so. Membership of registered private sector unions (the only ones for which there are official records) was around 40 percent of employees compared to about 10 percent now. Wage rises were helped by a series of general wage orders totalling a 24 percent increase. Industrial action was at a low.

The labour income share grew over this period from around 53 percent to 61 percent, but the adjusted labour share was roughly level, falling a little from the late 1950s. The difference between the two shares compared to recent years shows the very large part of New Zealand's income going to farmers who were overwhelmingly self-employed. The rise of the labour income share probably reflected in part a move from self-employment among other occupations (such as trades and the professions) to employee status. Also in this period was what historian Richard Hill described as a "massive migration" of Māori from rural to urban areas: "By some definitions, more than 80 percent of Māori eventually ended up living in urban environments – as opposed to less than 10 percent in 1926". Most would have found jobs as employees, probably contributing to the rise in labour income share. Manufacturing, with a relatively high labour income share, was also increasing its share of the economy.

The high plateau: 1968 to 1984

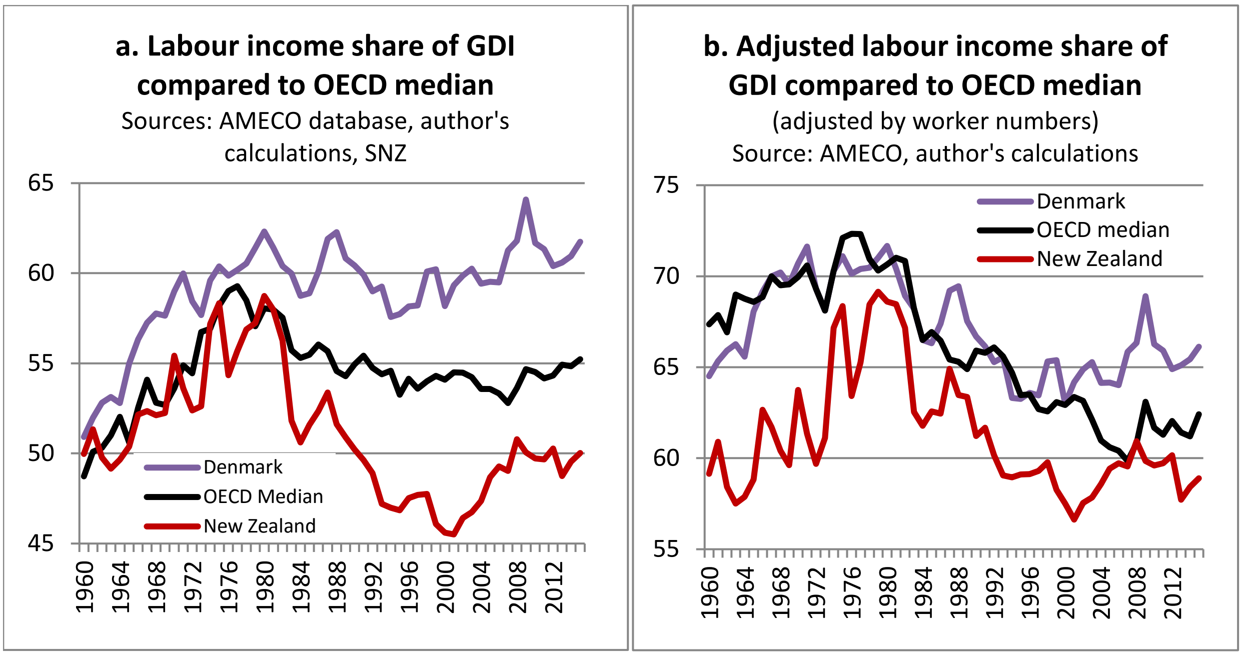
From the mid-1960s however there was growing discontent at the wage increases handed down by the arbitration system with many unions negotiating for wages above the ruling rates in awards. In 1968 under pressure from the Government, the Court refused an application by the Federation of Labour (FOL, the CTU's predecessor) for a 7.6 percent general wage increase to give any wage increase and made a "nil wage order". Though it was reversed within months in a deal reached between the FOL and the employers for a 5 percent increase (over-ruling the Court's judge – an "unholy alliance" according to then Finance Minister, Robert Muldoon), it produced widespread unhappiness with the Arbitration system. Industrial action increased strongly through the early 1970s and the Labour Government led by Norman Kirk was elected at the end of 1972. Nonetheless, real wage rises continued to match productivity growth until about 1974.

In 1973 the world was confronted by an "oil shock" when prices shot up following the outbreak of war in the Middle East. This caused recessions, high inflation (CPI inflation reached a record 17.2 percent in the year to March 1976 in New Zealand) and reduced profits in countries which were not oil producers. The Kirk Labour Government brought in a substantially higher minimum wage, improved social welfare benefits and new employment legislation – but also tight regulation of wage increases. It responded to a housing shortage and rapidly increasing prices with a huge construction boom that according to

Statistics New Zealand was, relative to the population, greater than any New Zealand has seen since then. This doubtless contributed to the incomes of the self-employed in the housing sector and to employment generally.

The labour income share, with and without the labour income of the self-employed rose to its highest level ever: from 60 percent in 1974 to around 70 percent from 1976 to 1982. This combination of recession, falling corporate profits (though in New Zealand, increasing investment income going overseas), increasing strength of union movements and industrial action, and high inflation was common throughout the developed world. It was also, as in New Zealand, a peak in the labour income share. As Figure 2 illustrates, however, not all countries have reduced their labour income share since then: it was not necessarily unsustainable.

Figure 2



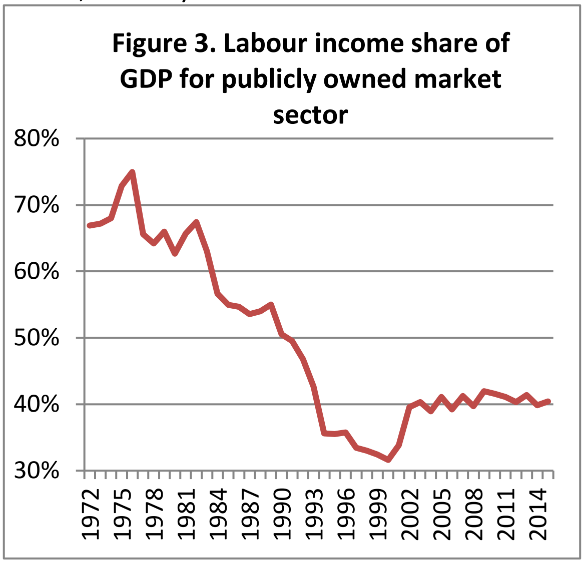
In the November 1975 general election, Labour was voted out and National became Government under Prime Minister Robert Muldoon. It brought in new laws and regulations restraining wage increases other than general wage orders and a series of price and rent freezes which were responded to by increased industrial action. A second oil crisis occurred in 1979 and in 1981 the labour income share reached its all-time peak of 71 percent of income.   The Government increasingly intervened to prevent wage rises and then in June 1982 imposed a wage freeze which lasted until February 1984. Real wages fell 9 percent and the labour income share collapsed to 61 percent.

Neoliberalism: 1984 to the present

The Muldoon Government was replaced by the Lange/Douglas Labour Government in 1984 which began one of the world's most radical neoliberal programmes of restructuring the economy and the state.

While it did not change employment laws as radically as its successor – a form of union preference and conciliation and arbitration remained – it did begin a process that that reduced union membership and weakened unions. Workers tried to regain some of their lost income from 1984. There were high levels of industrial action, and the labour share rose to 64 percent by 1988 but was still well below its peak.

What was more damaging to labour income than the change in employment laws was the programme of commercialisation and privatisation of government and the closing of manufacturing and other industries. Commercialisation of public organisations like the Forest Service (to the Forestry Corporation) and New Zealand Railways, both later privatised, severely reduced labour share in the public 'market' sector as Figure 3 demonstrates. The process increased profits, reduced wages and laid off workers. The loss of manufacturing, which has a higher than average labour income share, reduced the share for the whole economy.



Unemployment rose to 9 percent by the end of the 1984-1990 Labour Government and then continued to rise to 11 percent in September 1991. It remained above 10 percent until June 1993 and then fell only slowly, never falling below 6.2 percent in the 1990s decade. This was easily the highest unemployment seen since the Great Depression of the 1930s. Self-employed farmers were also hard hit by the removal of subsidies, requiring major changes to their businesses to survive, and many did not.

The incoming Bolger National Government in 1990 wasted no time in making further major changes. Most notably it enacted the Employment Contracts Act in May 1991. This deregulated employment relationships. Unions, which were mentioned only in transition provisions, became 'bargaining agents' with no different status to lawyers or any other group or individual, and membership was made voluntary. There was no extension of the benefits of collective bargaining to all workers in an industry as there had been in awards. Individual 'contracts' were encouraged and collective agreements made difficult to obtain. Private sector employers refused to negotiate multi-employer collective agreements, let alone national agreements, and they all but disappeared except in the state sector.

Union membership which was 52 percent of employees in 1989 (648,825 people in both private and public sectors) had halved to 25 percent by 1996 (338,967) and 23 percent by 2000.

At the same time, the Government made substantial cuts to social security benefits and toughened conditions for receiving them, reducing support for people suffering from the extensive changes, and further undermining wage levels. It continued the programme of privatisation of public assets and almost complete removal of tariffs and protection of manufacturing, with no programme to replace the disappearing industries with high value production and good wages.

Real average hourly wages largely stagnated between 1986 and 1996. Wage growth fell well behind labour productivity growth. In the year to March 1986 the real wage was $22.76 in June 2016 dollars and was only 3 percent higher in the year to March 1996. It then began to rise but only by 2004 had it returned to its 1982 peak. Households increased their work hours to compensate for declining real earnings during this period, when one of the greatest increases in household income inequality in the OECD occurred (mid-1980s to mid-1990s).

The Clark Labour-led coalition Government was elected in 1999. It reversed a small number of privatisations but retained most of the commercialised structure. It replaced the Employment Contracts

Act with the Employment Relations Act 2000, which was far from a return to arbitration, compulsory union membership and awards. A 2004 amendment which attempted to make multi-employer collectives more achievable was largely unsuccessful. Union membership continued to fall as a proportion of employees. There were however strong increases in the minimum wage. Between 1999 and 2008 it rose from 40 percent to 50 percent of the average hourly wage.

The labour income share bottomed out in the year to March 2002 at 54 percent, 17 percentage points below its 1981 peak and at a level not seen since 1954. It began to rise, perhaps as a result of industrial campaigns by unions and with the help of the strong rises in the minimum wage. The real wage rose 10 percent between the March years 2000 and 2009.

Changes by the National-led Government since 2008 to the Employment Relations Act have made collective bargaining more difficult to conclude, and withdrawn the 2004 amendment supporting multi-employer agreements.

The labour income share increased sharply by three percentage points during the Global Financial Crisis, perhaps as a result of declining profits at the outset of the crisis, reaching 61 percent in the year to March 2009, the level it was last at in 1991. From that point it has declined. In the year to March 2016 it was at 60 percent.

The immediate post-war level of the adjusted labour income share was 72 percent (in 1946). It fell below this in 1993 and in 2003 was at a record low of 65 percent. In the year to March 2016 it was at 68 percent. The self-employed then had their lowest share of income since 1939. The largest beneficiary has been corporate profits which rose to a 19 percent share in 2016, a level reached only in 1940 under wartime conditions.

Finally, for those who believe that when a wages system is working well, real wages closely follow labour productivity growth, this history has some lessons. The only extended period when that happened was when the conciliation and arbitration system was working well from 1947-74, with strong coverage of industry based collective bargaining extended to all workers through awards. When that broke down, wage growth first exceeded productivity growth and then fell far behind with the wage freeze. When employment relations were almost completely deregulated under the Employment Contracts Act in 1991 where individuals were expected to negotiate individual deals with their employers, real wages fell further and further behind labour productivity growth, costing each employee today in the order of $6,000 per employee per year. Figures 4 and 5 on the next page illustrate these points.

Bill Rosenberg

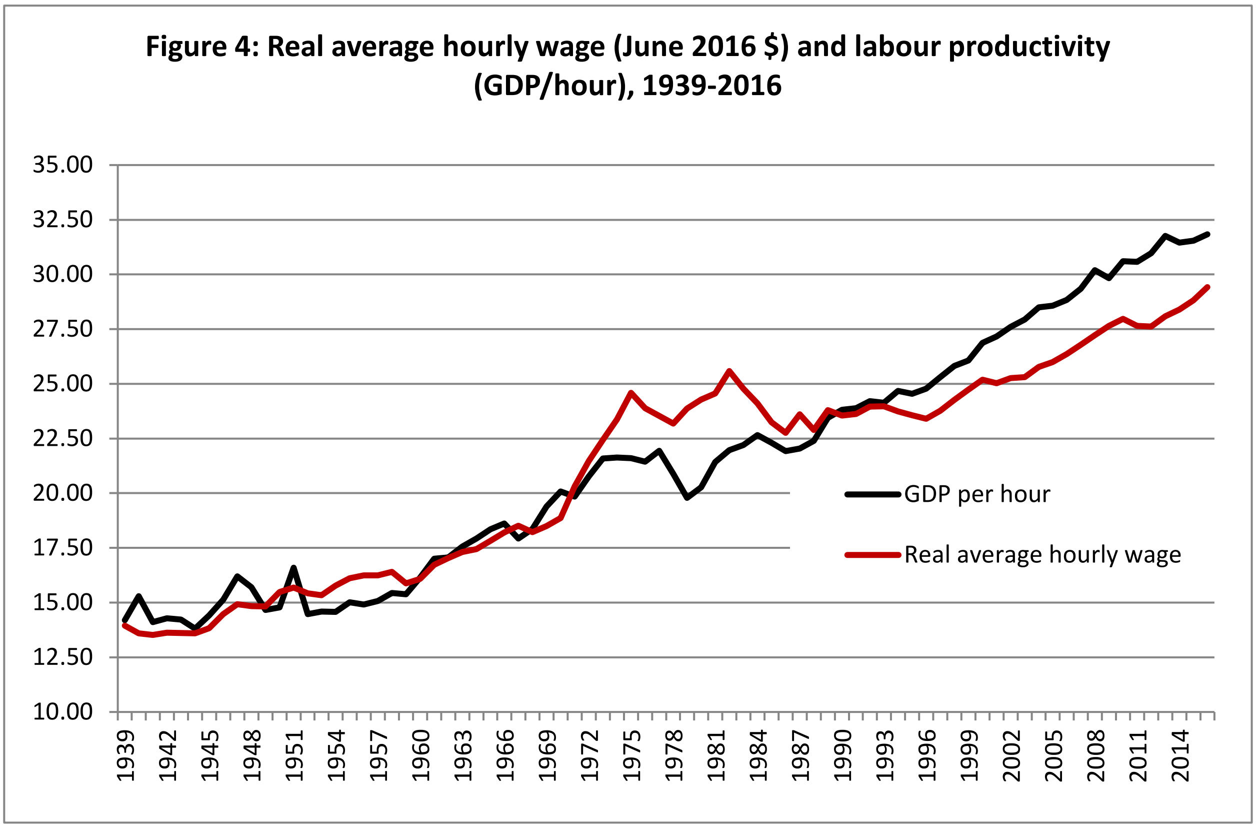


Figure 4: Real average hourly wage (June 2016 $) and labour productivity (GDP/hour), 1939-2016
35.00
32.50
30.00
27.50
25.00
22.50
20.00
17.50
15.00
12.50
10.00
1939
1942
1945
1948
1951
1954
1957
1960
1963
1966
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2005
2008
2011
2014
GDP per hour
Real average hourly wage

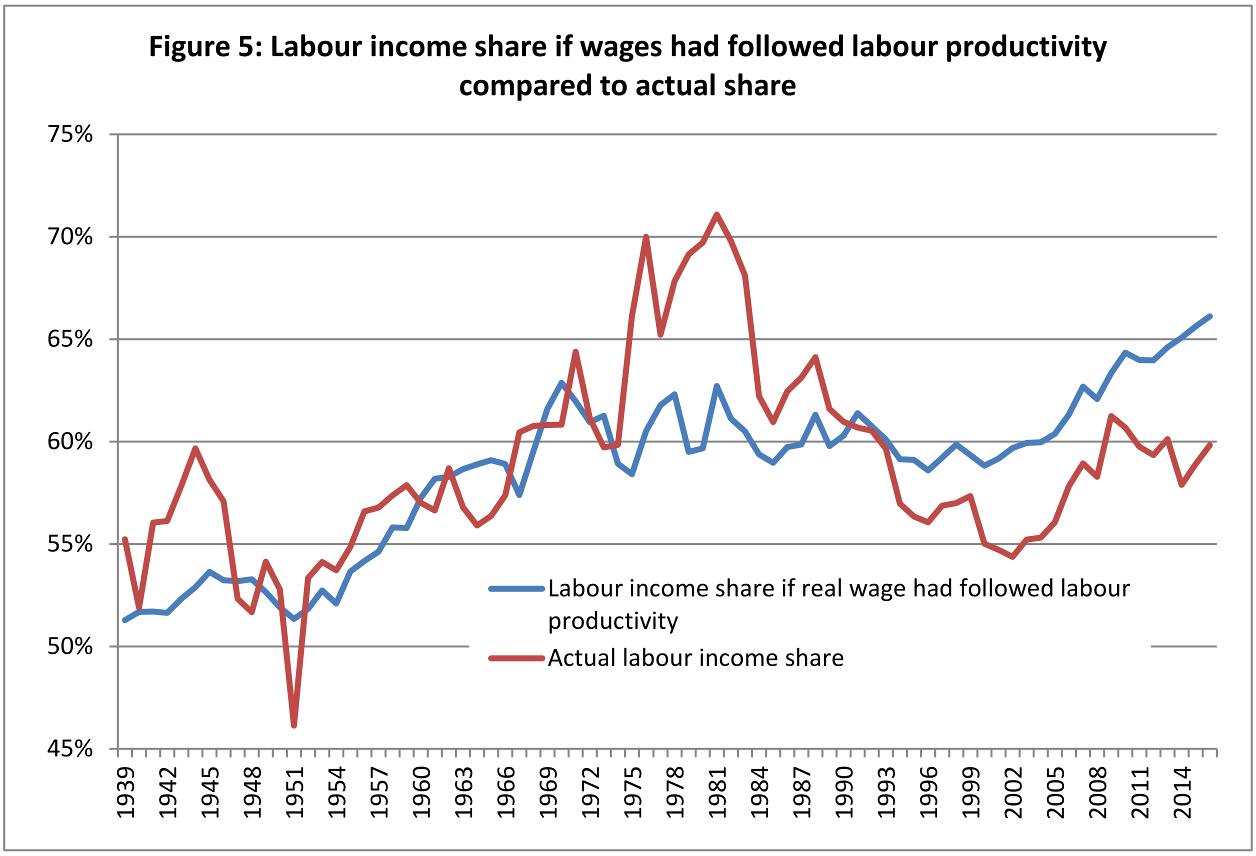


Figure 5: Labour income share if wages had followed labour productivity compared to actual share
75%
70%
65%
60%
55%
50%
45%
1939
1942
1945
1948
1951
1954
1957
1960
1963
1966
1969
1972
1975
1978
1981
1984
1987
1990
1993
1996
1999
2002
2005
2008
2011
2014
Labour income share if real wage had followed labour productivity
Actual labour income share

Information

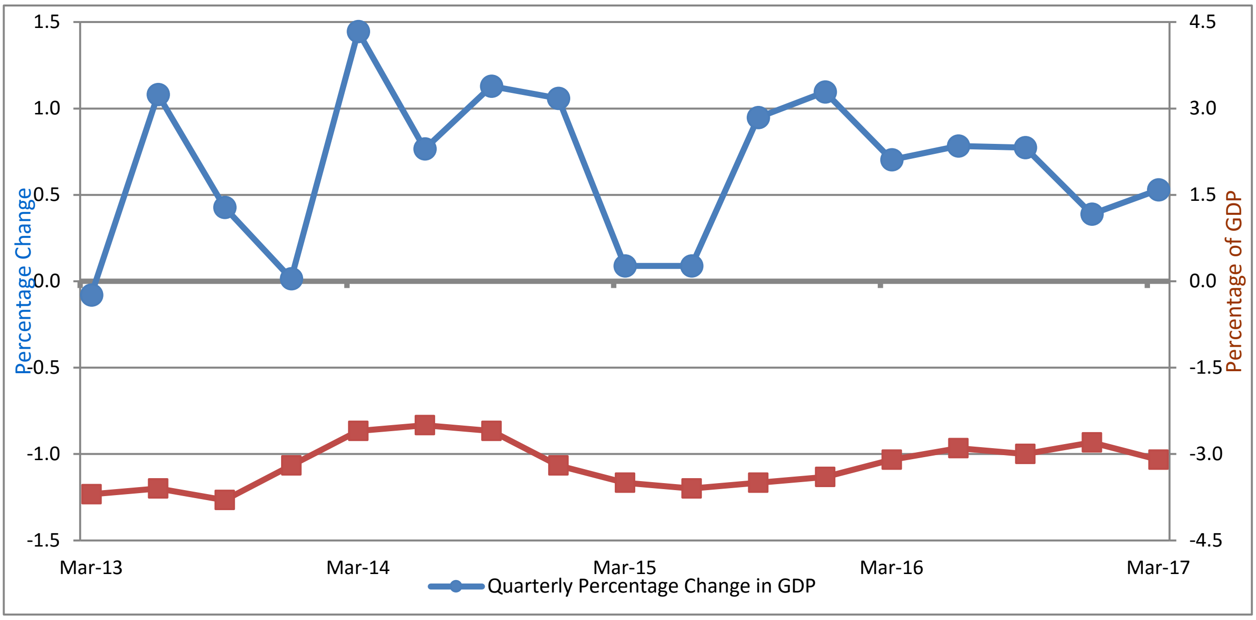
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 12 June 2017.

Annual Percentage Change (March Year)	**2017-18**	**2018-19**	**2019-20**
GDP	3.1	3.3	2.7
CPI	1.5	2.0	2.1
Private Sector average hourly wage	2.1	3.0	3.0
Employment	2.4	2.1	1.6
Unemployment rate (% of labour force)	4.7	4.6	4.6

Economy



★ Growth in New Zealand's economy was below expectations in the three months to March 2017, with Gross Domestic Product rising by 0.5 percent, compared to 0.4 percent in the December quarter and 0.8 percent in both the June and September quarters too. This is the second consecutive quarter in which GDP growth has been below forecasters' expectations and is well below Treasury's 1.1 percent forecast in the Budget. If this pattern continues it could affect the viability of the Government's tax reductions and spending. Average growth for the year ended March 2017 was 3.0 percent (and 2.5 percent increase between March quarters compared to Treasury's 3.1 percent forecast, though its average growth forecast was closer to actual, also at 3.1 percent). However GDP is not keeping up with the rapidly growing population: GDP per person fell 0.1 percent in the March quarter, though it rose 0.9 percent over the year. Real gross national disposable income per capita, which takes into account the income that goes to overseas investors, transfers (such as insurance claims) and the change in prices for our exports and imports, fell by 0.9 percent over the quarter after rising by an exceptionally strong 1.8 percent (revised down from 2.3 percent) during the December quarter. It rose 1.8 percent over the year to March. I estimate[1] that production per hour worked in the economy fell by 1.4 percent in the year to March compared to the same period a year ago indicating falling productivity which is bad for future wage growth. However it rose 1.1 percent in the March quarter after five consecutive quarters of falls. Business investment growth in the three months (2.3 percent) was strong following (revised down) 1.9 percent in the December quarter, and 3.7 percent over the year. Investment in housing fell 1.6 percent following only 0.1 percent growth in the previous quarter. However it grew 10.2 percent year on year. Household consumption growth strengthened to 1.3 percent in the March quarter in real terms, after rising only 0.4 percent in the previous quarter, and rose a strong 4.7 percent for the year. Inflation in the economy as a whole is higher than CPI with the GDP deflator (a price index for expenditure on the economy's production) rising 1.2 percent in the March quarter and 1.8 percent (revised) in the December quarter, with a total rise of 2.5 percent for the year.

★ By industry, the largest contributors to growth in the latest quarter were Agriculture, forestry, and fishing (up 2.8 percent), Manufacturing (up 1.0 percent), Electricity, gas, water, and waste services (up 2.1 percent), Retail trade and accommodation (up 1.8 percent), Public Administration and Safety (up 1.6 percent), Health care and social assistance (up 1.6 percent) and Wholesale trade (up (1.4 percent). They were offset by falls in Construction (down 2.1 percent) and Transport, postal and warehousing (down 2.0 percent). Over the year to March, the biggest rises were in Construction (up 9.3 percent), Arts, recreation, and other services (up 6.8 percent), Retail trade and accommodation (up 5.4 percent), Health care and social assistance (up 5.3 percent), and Professional, scientific, technical, administration, and support (up 4.7 percent). However Agriculture, forestry, and fishing was down 1.1 percent over the year, Mining was down 10.5 percent and Information media and telecommunications down 0.2 percent.

★ New Zealand recorded a Current Account deficit of $2.8 billion in seasonally adjusted terms for the March 2017 quarter (but an actual surplus of $244 million) following a revised $1.7 billion deficit for the December 2016 quarter. There was another deficit in the goods trade ($1.2 billion, seasonally adjusted, the highest since June 2008) following a $795 million deficit in the December quarter, with deficits in all quarters back to September 2014). There was a seasonally adjusted deficit of $198 million in goods and services (compared to a $386 million surplus in December), the first such

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[1] Because of the changes to the Household Labour Force Survey, there is a break in the hours-worked series in June. I estimated the increase for June using the historical relationship with hours paid from the more limited Quarterly Employment Survey.

deficit since March 2012, while the deficit on primary income (mainly payments to overseas investors) deteriorated to $2.3 billion from $2.1 billion in December (seasonal adjustment not available). For the year to March 2017, the current account deficit was $8.1 billion or 3.1 percent of GDP compared to a $7.2 billion deficit in the year to December (2.8 percent of GDP). The deficit on investment income was $8.5 billion for the year.

★ The country's Net International Liabilities were $154.8 billion at the end of March 2017, down from a revised $157.5 billion at the end of December and from $159.0 billion a year before. The March net liabilities were equivalent to 58.5 percent of GDP, compared to a revised 60.4 percent in December and 63.4 percent a year before. They would take 2.19 years of goods and services exports to pay off, down from 2.27 years a year before. The fall in net liabilities was due to $4.6 billion in valuation changes (mainly in market price valuations) reducing liabilities, offset by a $2.0 billion net inflow of investment, increasing liabilities. Without the valuation changes, the net liabilities would have been $159.5 billion. Statistics New Zealand explains the net inflow of investment as follows: "There was a $4.7 billion withdrawal of New Zealand's other investment assets held overseas. This included New Zealand banks withdrawing $2.8 billion of currency and deposits from overseas, while increasing their other investment liabilities such as loans from overseas by $2.5 billion. These are inflows of investment as in both cases money is flowing into New Zealand. Banks settling debt securities saw our portfolio investment liabilities decrease by $3.4 billion. Portfolio investment abroad increased by $1.3 billion, mainly due to increases in equity and debt securities by fund managers. These are outflows of investment as both transactions involve money leaving New Zealand." New Zealand's international debt was $286.5 billion (108.2 percent of GDP), of which 31.1 percent is due within 12 months, compared to $139.9 billion in financial assets (other than shares; 52.8 percent of GDP), leaving a net debt of $146.6 billion (55.4 percent of GDP). Of the net debt, $5.8 billion was owed by the government including the Reserve Bank (equivalent to 2.2 percent of GDP and down from $6.4 billion in December) and $110.3 billion by the banks (41.7 percent of GDP), which owed $155.8 billion gross. Total insurance claims made on overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 31 March 2017, $19.7 billion of these claims had been settled, leaving $516 million outstanding. For the Kaikōura earthquakes, out of an estimated $814 million of claims, $19 million had been settled leaving $795 million outstanding.

★ Overseas Merchandise Trade for the month of May saw exports of goods rise 8.7 percent from the same month last year while imports rose a huge 15.1 percent, mainly due to a 71 percent ($269 million) jump in oil products. This created a trade surplus for the month of $103 million or 2.1 percent of exports. There was a trade deficit for the year of $3.8 billion or 7.6 percent of exports, a slight improvement on the 7.3 percent deficit in the year to the same month in 2016. In seasonally adjusted terms, exports fell 6.6 percent or $305 million over the month (compared to a 17.2 percent rise the previous month) led by falls in Crude oil (down 85.1 percent or $73 million, not seasonally adjusted, after a steep rise of 127.4 percent the previous month), Mechanical Machinery and Equipment (down 11.5 percent or $16 million), and Wine (down 10.5 percent or $16 million), offset by rises in Dairy (up 2.9 percent or $34 million), Meat (up 5.4 percent or $29 million), Fruit (up 7.1 percent or $15 million) and Seafood (up 6.5 percent or $9 million). Seasonally adjusted imports rose 1.1 percent or $50 million over the previous month, creating a trade deficit of $386 million compared to a $31 million deficit in the previous month. The imports were led by rises in Petroleum and products (not seasonally adjusted, up 63.1 percent or $251 million), Mechanical machinery and equipment (not seasonally adjusted, up 11.0 percent or $64 million), Plastic and plastic articles (up 11.1 percent or $19 million) and Optical, medical, and measuring equipment (up 8.7 percent or $11 million).

- The Retail Trade Survey for the three months to March 2017 showed retail sales rose 4.6 percent by volume and 6.7 percent by value compared with the same quarter a year ago. They rose 1.5 percent by volume and 2.6 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Non-store and commission retailing (which includes internet purchases) which was up 9.6 percent, Fuel (up 6.5 percent), Motor vehicles and parts (up 5.9 percent) and Food and beverage services (up 4.0 percent). There were falls in Recreational Goods (down 0.8 percent), Department Stores (down 0.5 percent), Supermarket and grocery stores (down 0.2 percent) and Specialised food (down 0.1 percent). Supermarket and grocery stores, easily the largest single sector, fell 0.2 percent by value and 2.0 percent by volume.

- ★ The Performance of Manufacturing Index for May 2017 was 58.5, a rise from 56.9 in the previous month. The employment sub-index was at 55.3, a rise from 53.1 in the previous month.

- ★ The Performance of Services Index for May 2017 was 58.8, a sharp increase from 53.2 the previous month (but a return to its March value). The employment sub-index was 54.4, down from 55.7 in the previous month.

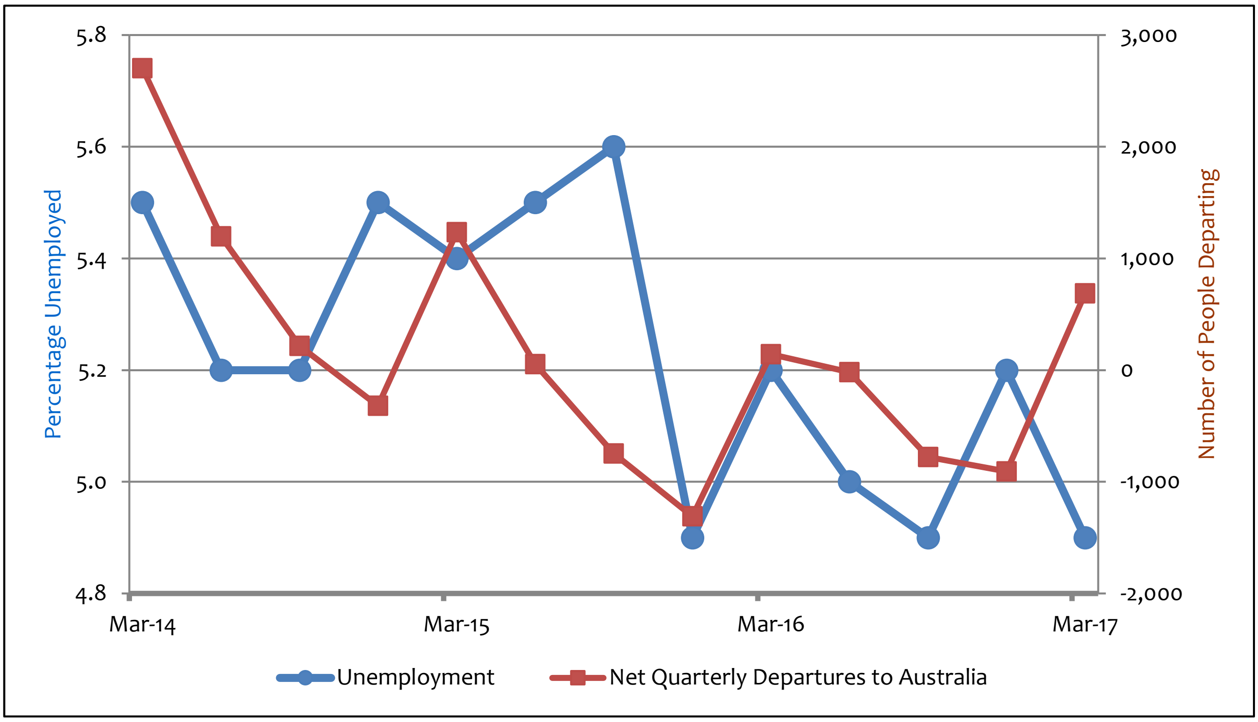
For these two indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.

- ★ On 22 June 2017 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. It indicated, as it has for some time, that the rate is likely to be in place for a considerable time unless there were unforeseen events: “Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain and policy may need to adjust accordingly”. After a pause in the last statement it returned to expressing concerns about the international situation: “Global economic growth has increased and become more broad-based. However, major challenges remain with on-going surplus capacity and extensive political uncertainty.” It also returned to expressing concerns about the exchange rate. The trade-weighted exchange rate (that is a combination of exchange rates with New Zealand’s main trading partners, weighted by our trade with them) which had fallen at the time of the last statement “has increased by around 3 percent since May, partly in response to higher export prices. A lower New Zealand dollar would help rebalance the growth outlook towards the tradables sector.” Economic growth in New Zealand in the March quarter was weaker than expected, but “the growth outlook remains positive, supported by accommodative monetary policy, strong population growth, and high terms of trade. Recent changes announced in Budget 2017 should support the outlook for growth.” The Bank considered that house price rises had “moderated further”, partly due to its loan-to-value ratio restrictions and tighter lending conditions, and thought that the moderation would continue but there was a risk that price rises resume because house building wasn’t keeping up with demand. As it said last time, it considered inflation would be brought to 2 percent “in the medium term”. The next OCR announcement will be on 10 August 2017.

- ★ According to REINZ, over the year to May the national median house price rose $33,900 or 6.7 percent to $540,000 and REINZ’s house price index rose 5.0 percent. (The house price index adjusts for the type of house, such as its size and land area, and seasonal price patterns.) Over the month, the median price rose 0.1 percent seasonally adjusted while the house price index fell 0.4 percent.

In Auckland, over the year, the median price rose 5.0 percent or $41,500 to $865,500 and the house price index rose 1.8 percent. Over the month the median price rose 0.6 percent percent seasonally adjusted, and the house price index fell 0.7 percent. Excluding Auckland, over the year the national median price rose $43,500 to $430,000 or 11.3 percent while the house price index rose 11.1 percent. Over the month the median price was up 0.5 percent on the previous month seasonally adjusted, and the house price index was up 0.2 percent. Four regions had record median prices: Northland ($450,000, up 28.6 percent), Manawatu/Wanganui ($269,000, up 19.6 percent), Nelson/Marlborough ($483,250, up 22.3 percent) and Southland ($238,000, up 14.1 percent). Median prices fell in 4 of the 14 regions over the month, seasonally adjusted, and sales fell in seven of the regions. Over the year, sales fell sharply in all regions except Nelson/Marlborough and the West Coast, averaging an 18.4 percent fall.

Employment



- According to the Household Labour Force Survey (HLFS) the **unemployment** rate in the March 2017 quarter fell to 4.9 percent or 132,000 people, compared to 5.2 percent in December 2016 (138,000 people), seasonally adjusted. It is half as much again than the 3.3 percent it was in December 2007, which would mean 44,000 more people would have jobs. The seasonally adjusted female unemployment rate at 5.7 percent in March was higher than for men (4.2 percent), and while female unemployment was unchanged compared to the previous quarter, male unemployment fell from 4.9 percent. Māori unemployment fell from 12.2 percent in March 2016 to 10.4 percent in March 2017, and Pacific people's unemployment rose from 9.8 percent to 11.0 percent over the year. Compared to OECD unemployment rates, New Zealand had 13th lowest (out of 35 countries), the same as in December.
- **Youth unemployment** for 15-19 year olds was 20.4 percent in March, down from 21.9 percent in December 2016, and equal to the 21.9 percent in March 2016 (these and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and for Pacific Peoples are not). For Māori 15-19 year olds in March 2017 the unemployment rate was 21.2 percent, a sharp

decline from 34.2 percent a year before. For 15-19 year old Pacific Peoples it was 32.8 percent, similar to the 33.1 percent it was a year before. For 20-24 year olds youth unemployment was 8.7 percent, down from 9.4 percent in December and 9.5 percent a year before. For Māori 20-24 year olds in March 2017 the unemployment rate was 13.4 percent, lower than the 16.2 percent a year before. For 20-24 year old Pacific Peoples it was 13.0 percent, similar to the 12.7 percent it was a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) for 15-19 year olds was 10.5 percent, up from 9.6 percent in December and 8.8 percent a year before. For Māori 15-19 year olds in March 2017 the rate was 16.8 percent, compared to 17.3 percent a year before and for Pacific Peoples it was 17.1 percent, up from 13.8 percent a year before. For 20-24 year olds the NEET rate was 14.9 percent, down from 17.1 percent in December and 15.9 percent a year before. For Māori 20-24 year olds in March the rate was 26.6 percent and for Pacific Peoples it was 22.3 percent. For the whole 15-24 year old group, unemployment was higher for those in education (14.9 percent) than those not in education (11.7 percent). There were 86,000 people aged 15-24 years who were not in employment, education, or training (NEET), down from 90,000 in December but up from 82,000 a year before.

- By **region**, in the North Island, unemployment rates rose compared to a year ago in two out of the eight regions but only in Bay of Plenty was the rise statistically significant (that is, for the other regions the error in the estimates of unemployment means it cannot be ruled out that the rises were in fact zero). In the North Island, Northland has the worst unemployment rate at 8.0 percent while Gisborne/Hawke's Bay and Bay of Plenty are tied for second at 7.6 percent at 4.9 percent. The change in Bay of Plenty from one of the best to one of the worst is steep: from 4.7 percent in March 2016 to 7.6 percent in March 2017. Auckland is at 5.0 percent (down from 6.1 percent a year before) and Wellington 5.1 percent (down from 5.9 percent a year before). The South Island looks better with Tasman/Nelson/Marlborough/West Coast at 2.8 percent showing a statistically significant improvement from 5.1 percent a year before, Otago at 4.4 percent (the same as a year before) and Southland at 4.7 percent (4.6 percent a year before). However Canterbury at 4.0 percent has a statistically significant deterioration from 2.7 percent a year before.
- There are 44,500 unemployed people who have been **out of work for more than 6 months**. This is apparently a large increase from the 32,100 a year before but a change in the survey question could have contributed to this. This is 32.0 percent of the unemployed compared to 22.9 percent a year before, a level that has not been previously reached in a March quarter since 1999. Those out of work for more than a year are 14.0 percent of the unemployed compared to 10.3 percent a year before (again possibly affected by the changed survey question), the highest in a March quarter since 2002.
- The unemployed were not the only people looking for work: "**underutilisation**" includes the officially unemployed as above, people looking for work who are not immediately available or have not looked for work sufficiently actively to be classed as officially unemployed, plus people in part time work who want more hours ("underemployed"). In the March quarter there were a total of 346,700 people looking for work classed as "underutilised", or 12.5 percent of the labour force extended to include these people. Of them, 109,600 were underemployed, 139,100 were officially unemployed, and 98,000 were additional jobless people looking for work (these figures are not seasonally adjusted). The 12.5 percent underutilisation rate is lower than the 13.8 percent a year before but considerably higher than in September 2007 when it was 8.8 percent. It is higher for

women at 15.9 percent than for men (9.3 percent). Excluding the officially unemployed, the underutilisation rate is 7.5 percent.

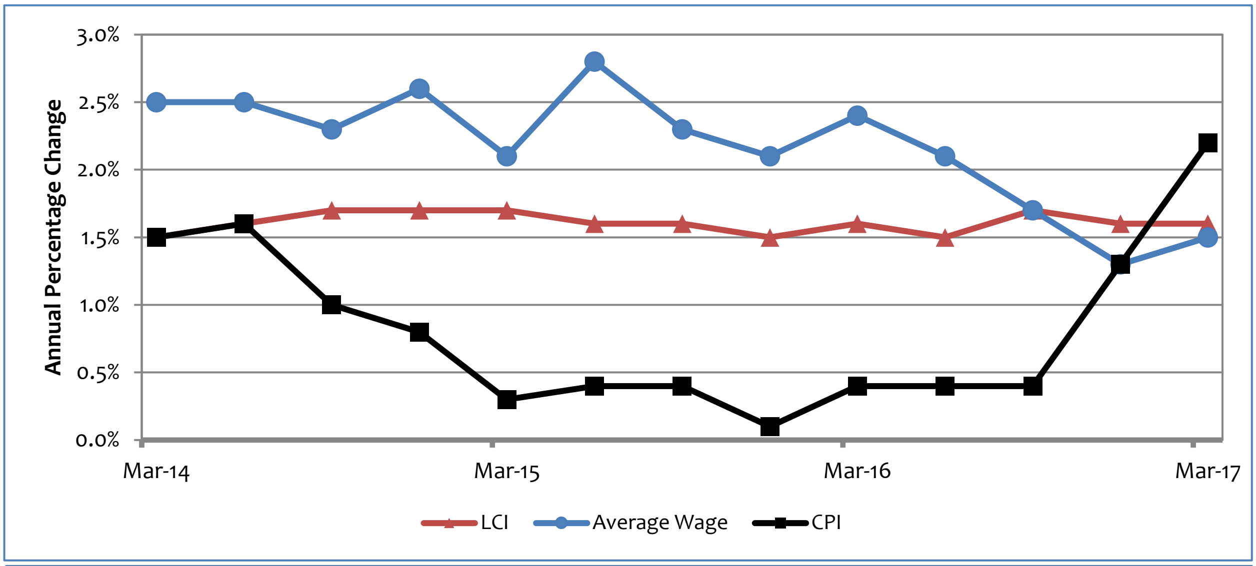
- The number recorded as **employed** rose by 29,000 between the December 2016 and March 2017 quarters (seasonally adjusted). The recorded employment rate rose from 66.8 percent to 67.1 percent over the three months. It was 61.6 percent for women and 73.0 percent for men. Similarly the participation rate (the proportion of the working age population either in jobs or officially unemployed) rose from 70.5 percent to 70.6 percent, all in seasonally adjusted terms.
- **By industry**, the increase in employment of 20,100 since the December 2016 quarter was made up of both gains and losses. The biggest gains were of 18,900 in Manufacturing, 6,900 in Professional, scientific, technical, administrative, and support services, and 4,400 in both Transport, postal, and warehousing and Rental, hiring, and real estate services. The largest falls were of 9,800 in Retail trade, accommodation and food services, and 4,000 in Arts, recreation, and other services. These are not seasonally adjusted.
- In the March 2017 quarter, total **union membership** was estimated at 375,400, a 0.7 percent fall from 377,900 in the December quarter and down from 379,300 in the June quarter. The membership is 18.1 percent of employees (or slightly higher if those who didn't know were discounted) compared to 18.3 percent in the December quarter and 19.1 percent in the June quarter. Women make up 56.5 percent of the membership compared to 48.9 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.0 percent compared to 15.4 percent. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends. Regarding coverage by a **collective employment agreement**, 18.7 percent of employees (387,800, which is larger than the estimated number of union members) said their employment agreement was a collective in March compared to 19.2 percent in December and 20.6 percent (410,300) in June; 66.4 percent (1,373,400) said it was an individual agreement compared to 65.9 percent in December and 62.9 percent in June, and 7.4 percent or 153,900 said they had no agreement (which is illegal), compared to 7.8 percent in December and 8.6 percent in June. While the proportion has fallen slightly, there is still a large number that flout the law. A further 7.4 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 16.1 percent for men and 21.5 percent for women. Again, these figures could be affected by seasonal variations in numbers.
- By **employment relationship**, in the March 2017 quarter, 90.0 percent of employees (1,862,800) reported they were permanent, 4.9 percent casual (102,100), 2.5 percent fixed term (51,100), 1.5 percent seasonal (31,700), and 0.3 percent employed through a "temporary agency" (7,200). The proportion reporting they were permanent was up from 89.3 percent (1,840,300) in December 2016 and 88.7 percent (1,762,900) in June. Women were slightly less likely to be permanent employees: 89.2 percent of women were permanent compared to 90.8 percent of men. Instead, women were more likely to be casual (5.4 percent of them compared to 4.5 percent of men) or fixed term (3.0 percent of women compared to 1.9 percent of men). However somewhat more men were in seasonal work than women – 1.7 percent of men (17,900) compared to 1.5 percent of women (13,800). Of the temp agency employees, 3,400 were men and 3,800 women. Women made up 48.9 percent of employees. Employment relationships may have seasonal variations, so we should be cautious about seeing trends in quarterly comparisons. In addition, small differences may not be statistically significant.

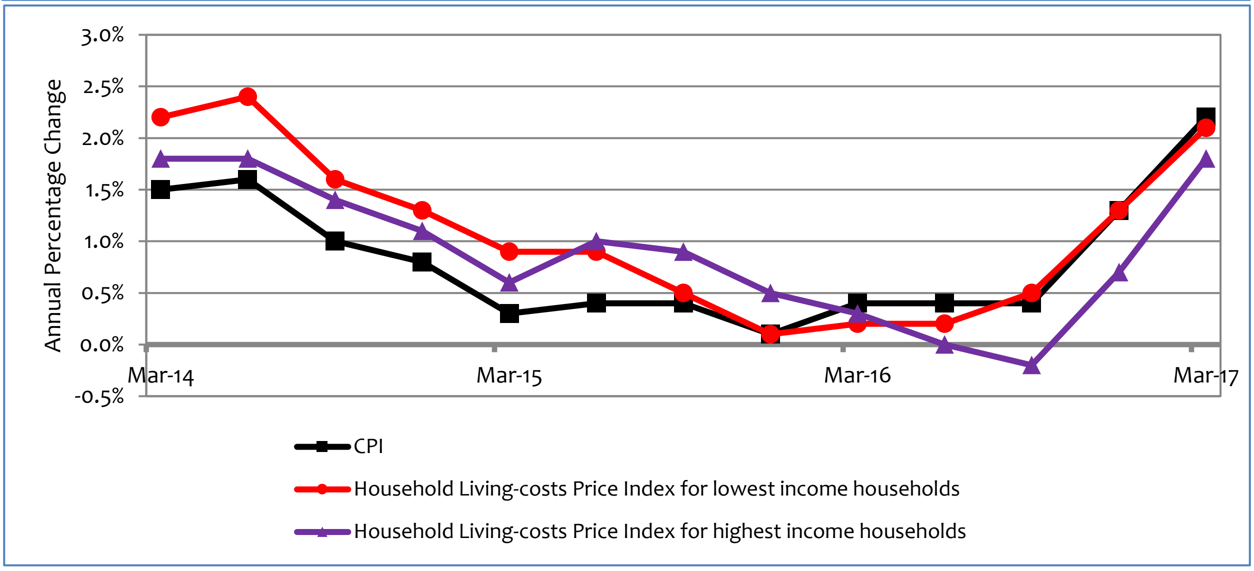
- By **duration of employment (job tenure)**, in the March 2017 quarter, 22.8 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 33.0 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 17.2 percent had been in their job for at least five but less than ten years, and 25.6 percent had been in their jobs for 10 years or more. Women appeared to be somewhat more likely to have been in their jobs for a shorter time than men. For example, 27.6 percent of men had been in their jobs for more than 10 years, but only 23.4 percent of women. Age is a significant factor: 53.0 percent people aged 15 to 24 had been in their jobs for less than a year, and 29.8 percent of 25-34 year olds, but only 12.8 percent of 45-54 year olds and 10.6 percent of 55-64 year olds. Small differences may not be statistically significant.
- The Ministry of Social Development reports that at the end of March 2017 there were 119,405 working age people on the Jobseeker benefit, 2,271 more than a year before but a fall of 4,906 from 124,311 in December. At March 2017, 63,945 were classified as 'Work Ready', and 55,460 were classified as 'Health Condition or Disability'. A total of 278,236 were on 'main' benefits, 1,655 fewer than a year before, mainly due to 4,175 fewer on Sole Parent Support, and 18,744 lower than December, mainly because of over 10,000 coming off a 'Jobseeker Support Student Hardship' benefit during the three months. The Minister welcomed the fall in numbers on Sole Parent Support, attributing it to the Budget 2015 package that "set new requirements for sole parents and partners of beneficiaries to look for part-time work of 20 hours a week when their youngest child turns 3, instead of 5". She inaccurately claimed that "the proportion of the population on a main benefit (9.6 per cent) [is] the lowest it's been in a March quarter since 1997". In fact it was at 9.0 percent of the population (she means those aged 15 to 64) in March 2008 when it was 22,482 lower. Of the 52,826 benefits cancelled during the three months to March, 22,344 or 42.3 percent obtained work, 11.1 percent transferred to another benefit and 13.7 percent became full time students.

★ Job Vacancies Online for May 2017 showed the seasonally adjusted number of job vacancies rose by 4.5 percent in the month and rose 10.8 percent over the same month a year previously, in seasonally adjusted terms. Over the year, vacancies in Auckland rose 8.6 percent, Wellington rose 6.0 percent, the rest of the North Island rose 18.5 percent, Canterbury rose 8.5 percent and the rest of the South Island rose 24.2 percent. Over the month, vacancies rose in all regions: in Auckland by 3.5 percent, Wellington by 3.4 percent, the rest of the North Island by 6.9 percent, Canterbury by 3.7 percent and in the rest of the South Island by 7.8 percent. By industry, the fastest annual increases were in Education and training (up 35.2 percent), Construction and engineering (up 14.9 percent) and Hospitality and tourism (up 14.7 percent) but vacancies fell 16.8 percent in IT (Information Technology). Over the month, all rose except IT (down 0.4 percent) with the largest rises Education and training (up 42.2 percent), Hospitality and tourism (up 5.3 percent), and Accounting, HR, legal and admin (up 3.2 percent). By occupation, the fastest rises over the year were for Machinery Drivers (up 29.9 percent), Labourers (up 19.3 percent), Community and Personal Services (up 13.5 percent) and Sales (up 13.3 percent). Over the month, vacancies rose across all occupation groups led by Community and Personal Services (up 7.8 percent), Professionals (up 7.7 percent) and Machinery Drivers (up 6.1 percent).

★ International Travel and Migration statistics showed 11,100 permanent and long-term arrivals to New Zealand in May 2017 and 5,190 departures in seasonally adjusted terms, a net gain of 5,900. There was a record actual net gain of 71,964 migrants in the year to May. Net migration to Australia in the year to May was 790 arrivals, with 24,721 departures and 25,511 arrivals. However there was a net loss of 4,423 New Zealand citizens to Australia over the year and a net loss of 1,332 to all countries. For the month, there was a seasonally adjusted net gain from Australia of 60, compared to a gain of 70 a year before. In May, 15.2 percent of the arrivals had residence visas, 13.5 percent student visas, 36.1 percent work visas, and 4.9 percent visitors. A further 30.0 percent were New Zealand or Australian citizens.

Wages and prices





- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to March 2017 and increased 1.6 percent in the year, behind the 2.2 percent increase in the CPI. The LCI increased 0.3 percent in the public sector and 0.4 percent in the private sector in the three months to March. Over the year it rose 1.7 percent in the public sector and 1.5 percent in the private sector. During the year, 44 percent of jobs surveyed did not receive a pay rise, and 47 percent of private sector jobs got no rise. For the 56 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.1 percent and the average increase was 3.0 percent. For those jobs that received increases, the median increase in the public sector was 2.0 percent and in the private sector 2.3 percent; the average increase in the public sector was 2.5 percent and in the private sector 3.1 percent. We estimate that over the year, jobs on collective employment agreements were 2.1 times as likely to get a pay rise as those which were not, and are more likely to get a pay rise of any size ranging from less than 2 percent to 5 percent but are 30 percent less likely to get one of more than 5 percent. Only 47 percent of jobs that were not on a collective got a pay rise during the year whereas the Centre for Labour, Employment and Work reports 99 percent of those on a collective got a pay rise. In the construction industry, salary and ordinary time wage rates in Canterbury went back to falling behind the rest of the country after a brief spurt in December: they rose 0.0 percent in Canterbury in March, but 0.7 percent in the rest of the country. Over the year to March, wage rates also rose faster in the rest of the country: 1.3 percent in Canterbury compared to 2.0 percent elsewhere. For those getting a rise, Canterbury wage rates rose 4.0 percent in the year compared to 3.6 percent elsewhere.

- The Quarterly Employment Survey for the three months to March 2017 found the average hourly wage for ordinary-time work was $29.90, up 0.5 percent on the previous quarter and up just 1.5 percent over the year. Female workers (at $27.76) earned 12.4 percent less than male workers (at $31.68) for ordinary time hourly earnings. The average ordinary-time wage was $27.82 in the private sector (up 0.3 percent in the quarter and just 1.1 percent in the year) and $38.81 in the public sector (up 3.1 percent in the quarter and 4.3 percent in the year). In March, average total hourly wages (including overtime) ranged from $18.90 in Accommodation and food services (a fall from $19.05 in the previous quarter) and $21.12 in Retail trade, to $42.11 in Finance and insurance services, and $39.76 in Information, media and telecommunications (a fall from $40.26 in the previous quarter). In Accommodation and food services, 59.4 percent of employee jobs were part time, and in Retail trade, 41.8 percent were part time; 43.7 percent were also part time in Health care and social assistance, 39.3 percent in Arts, recreation and other services, and 27.3 percent in Education and training. Together these five industries made up 67 percent of all part time work. (However the QES does not include agriculture or fishing and excludes very small businesses.)

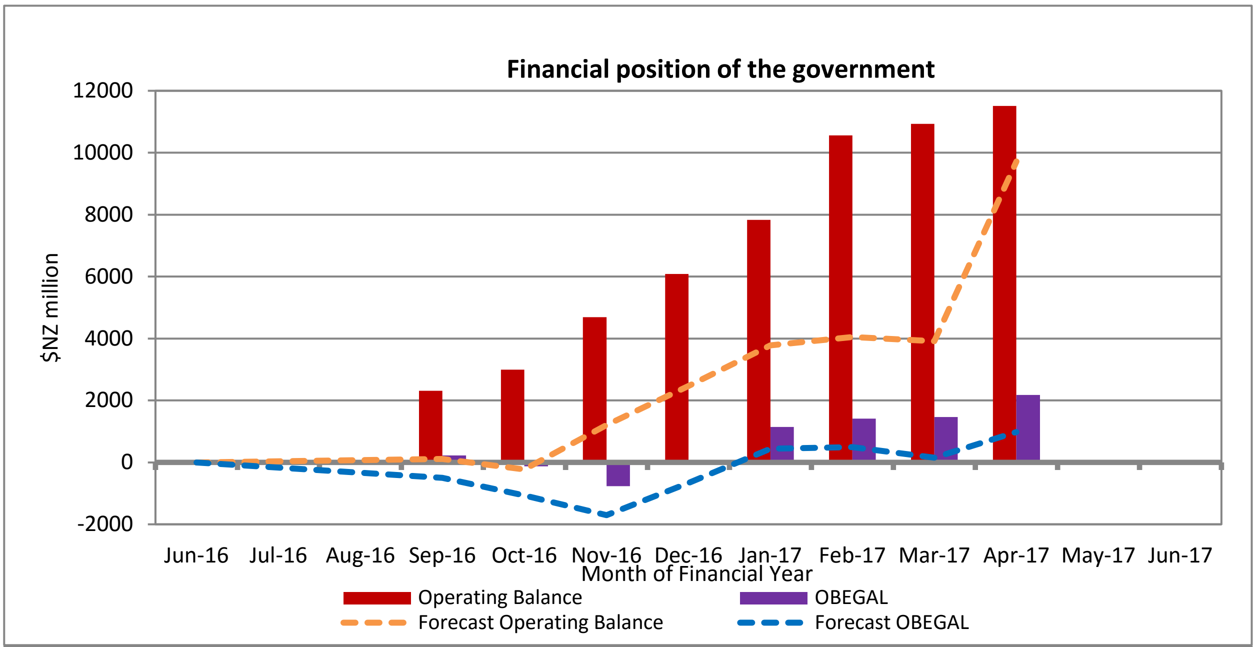
- The Consumer Price Index (CPI) rose 1.0 percent in the March 2017 quarter compared with the December 2016 quarter, and also 1.0 percent in seasonally adjusted terms. It increased 2.2 percent for the year to March, the largest annual increase since 2011 (which was boosted by the GST increase). For the quarter, the largest upward influence was Fruit (up 15.8 percent), and Food together accounted for 42.8 percent of the rise with rising prices of Grocery food contributing almost as much as Fruit. The annual rises in the tax on cigarettes and tobacco increased their prices by 9.7 percent, contributing nearly one third (29.3 percent) of the total rise. Petrol prices, rising 4.1 percent, contributed another 19.0 percent of the total rise. There were falls in International air transport (down 10.7 percent), Package holidays (down 7.5 percent) and Telecommunications services and equipment (down 1.2 percent and 1.0 percent respectively). Over the year, Housing and household utilities was easily the biggest driver in the rise, up 3.3 percent and contributing for over one third (38.4 percent) of the increase with new housing up 6.7 percent and all the other components rising faster than overall CPI: Property maintenance (up 2.6 percent), Property rates and services (up 3.3 percent), rents (up 2.3 percent) and Household energy (up 2.3 percent). Not part of the Housing group but also related to housing are house insurance (up 5.4 percent), and Real estate services (up 11.6 percent). Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in March (down 1.7 percent in the quarter and 8.9 percent over the year) though there are signs it is beginning to rise again. Other major contributors to the annual increase were petrol, accounting for nearly a quarter (23.2 percent) of the total, rising 12.2 percent, Food (up 1.6 percent) and Cigarettes and tobacco (up 9.8 percent). In seasonally adjusted terms, the CPI rose 1.0 percent from December, Food rose 1.2 percent, Alcoholic beverages and tobacco rose 1.0 percent, Clothing and footwear rose 0.2 percent, Housing and household utilities rose 0.8 percent, Communications fell 1.5 percent, Recreation and culture fell 0.1 percent, and Education fell 0.1 percent. Inflation in Canterbury for the year was 1.9 percent and it was 2.0 percent in the rest of the South Island. In Auckland prices rose 2.4 percent, Wellington 2.2 percent and 2.1 percent in the North Island other than Auckland and Wellington. Auckland's housing costs rose 3.9 percent over the year, the fastest in the country; Wellington's rose 2.6 percent, the North Island (outside Auckland and Wellington) rose 3.3 percent, Canterbury's rose 2.0 percent and rest of the South Island rose 3.0 percent, with the national average movement of 3.3 percent exceeded only by Auckland.

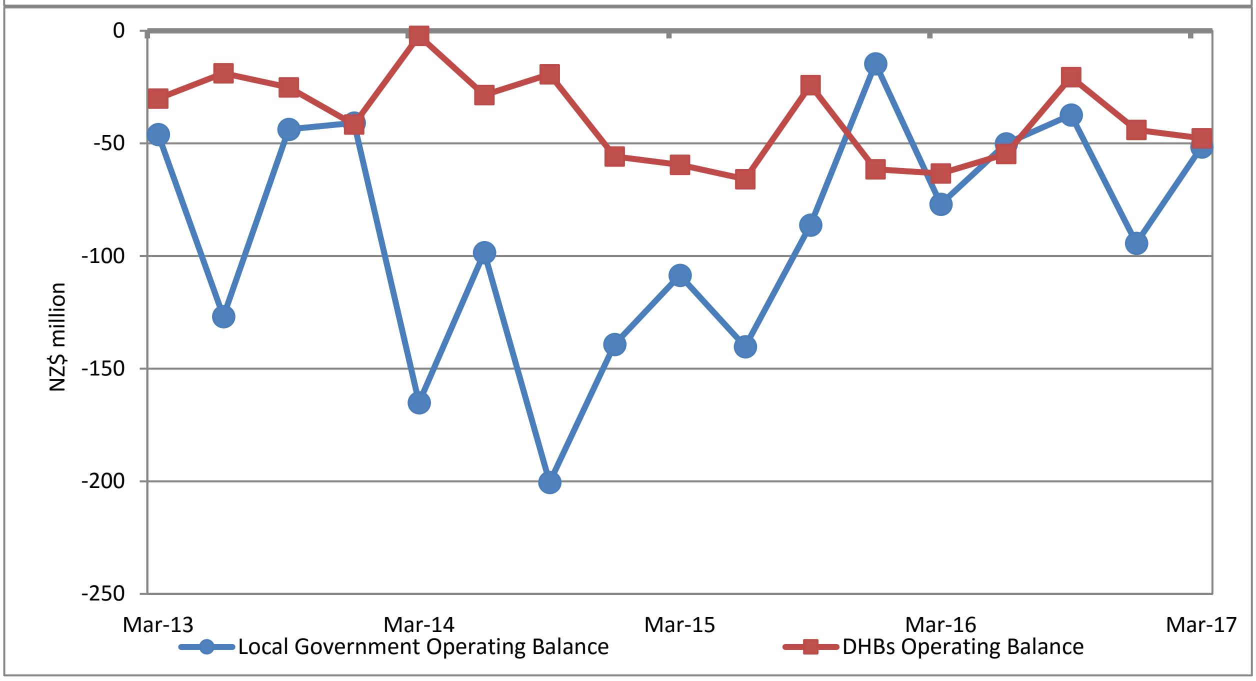
- The **Household Living-costs Price Indexes** (HLPIs) for the year to March 2017 again showed lower income households experiencing faster price rises than higher income households because of the differences in what they spend their money on. Prices for the necessities of housing, food and petrol dominated the rises while relative luxuries international travel and package holidays dominated falls. The All households HLPI index rose 1.9 percent, the Beneficiary households index rose 2.2 percent, the Māori households index rose 2.1 percent, and the Superannuitant households index rose 2.0 percent. By income quintile, the index for the lowest income households (quintile 1) rose 2.1 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.9 percent, and quintile 5 (the highest incomes) rose 1.8 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.3 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.9 percent, quintile 4 rose 1.8 percent, and quintile 5 rose 1.6 percent. Over the March quarter, the All households HLPI index rose 0.9 percent, the Beneficiary households index rose 1.4 percent, the Māori households index rose 1.3 percent, and the Superannuitant households index rose 0.9 percent. By income quintile, over the year the index for the lowest income households (quintile 1) rose 1.2 percent, quintile 2 rose 1.2 percent, quintile 3 rose 0.9 percent, quintile 4 rose 1.0 percent, and quintile 5 rose 0.6 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 1.3 percent, quintile 2 rose 1.2 percent, quintile 3 rose 1.0 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.5 percent.

HLPIs show price increases like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by different types of households. There are fourteen indexes: for "all households", Beneficiary households, Māori households, Superannuitant households, five for households ranked by income (five "income quintiles"), and five for households ranked by expenditure ("expenditure quintiles"). See the commentary in the November 2016 Bulletin for more detail.

- ★ The Food Price Index rose sharply by 2.4 percent in the month of May 2017 (and rose 1.6 percent in seasonally adjusted terms). Food prices rose 3.1 percent in the year to May. Compared with the previous month, fruit and vegetable prices rose 8.2 percent (and rose 6.6 percent seasonally adjusted); meat, poultry, and fish prices rose 2.3 percent; grocery food prices fell 1.9 percent (up 2.2 percent seasonally adjusted); non-alcoholic beverage prices rose 1.0 percent; and restaurant meals and ready-to-eat food prices rose 0.3 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)

Public Sector





★ According to Treasury's Financial Statements of the Government of New Zealand for the ten months to 30 April 2017, core Crown tax revenue was $835 million (1.4 percent) higher than forecast in the 2017 Budget Economic and Fiscal Update (BEFU 17). Corporate tax was $736 million (8.1 percent) above forecast and exactly $2.0 billion (7.8 percent) higher than the same time last year. PAYE was $199 million (0.8 percent) above forecast. Overall core Crown revenue was $824 million or 1.3 percent higher than forecast, and $4.7 billion (8.2 percent) higher than the same period last year. Core Crown expenses were $391 million (0.6 percent) below forecast, mainly because "impairment of tax receivables [were] less than forecast, and lower than forecast year to date payments to Crown Entities". As a result, the Operating Balance before Gains and Losses (OBEGAL) was $2.2 billion in surplus, $1.2 billion better than forecast. The Operating Balance was an $11.5 billion surplus, $1.8 billion more than forecast resulting from "higher than forecast investment returns on the Crown's investment portfolios, partially off-set by lower than expected actuarial gains (mostly reflecting a lower discount rate used to convert future cash into present day dollars)". Net debt at 24.0 percent of GDP ($62.8 billion) was $1.2 billion lower than forecast. Gross debt at $88.7 billion (34.0 percent of GDP) was $1.2 billion more than forecast. The Crown's net worth in financial terms was $1.9 billion higher than forecast at $102.2 billion.

★ District Health Boards had 329 fewer full time equivalent staff than planned at the end of April 2017 (62,591 compared to 62,920 planned). While all categories of staff were affected except Nursing (which was 385 over plan), the largest shortfalls were in Allied Health Personnel (285 short), Medical Personnel (doctors – 180 short), and Management/Administration staff (187 short). Average costs per full time equivalent staff were very close to those planned ($93,400 compared to $93,100). The DHBs had accumulated combined deficits of $50.6 million in the ten months to April. This is $38.3 million worse than their plans. The Funder arms were in surplus by $156.0 million, $52.7 million more than planned, and Provider arms (largely their hospitals) in deficit by $206.1 million, $91.0 million worse than planned. The Northern region was $7.9 million behind plan with a surplus of $17.1 million and three of the four DHBs in surplus. The Midland region was $17.9 million behind plan with a deficit of $3.0 million and three of the five DHBs in deficit. Central region was just $88,000 behind plan with a combined $14.5 million deficit and three of the six DHBs in surplus. The Southern Region was $12.5 million behind plan with a $50.2 million deficit and two of the five DHBs in surplus, with Canterbury showing a $39.3 million deficit and Southern $13.7 million. In all, 10 of the 20 DHBs were in surplus but only six ahead of plan. The DHB furthest ahead of plan was Southern by $1.5 million, and Canterbury was furthest behind, by $11.4 million. Capital expenditure across all DHBs was behind plan with $489.0 million spent out of $657.7 million planned.

★ Local Government in the March 2017 quarter recorded a 5.6 percent ($131.3 million) increase in operating income in seasonally adjusted terms and a 3.6 percent rise in operating expenditure ($88.4 million) including a 3.4 percent rise in employee costs (up $18.1 million) compared to the December 2016 quarter. This resulted in an operating deficit of $51.6 million in the March quarter, compared with a deficit of $94.4 million in the December 2016 quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin190.

For further information contact Bill Rosenberg.