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Te Kauae Kaimahi

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Commentary

This is my 100th CTU Economic Bulletin. To celebrate, I'm taking the next month off, so the next Bulletin will be at the end of August.

What confidence can we have in "business confidence"?

Summary

'Business confidence' is falling and we should be very concerned, we are told. But is 'business confidence' really falling and is it anything more than an opinion poll of some chief executives as to what they think of the Government of the day, or their impression (which may not be any more accurate than yours or mine) of where the economy is going?

Do 'business confidence surveys' tell us much about the real state of the economy? The international evidence is weak. It also depends on the poll you choose. General business confidence seems to be largely based on executives' view of the Government of the day, plus major events like recessions. When the CEs talk about their expectations for their own firm it appears somewhat more soundly based, and can look very different to their general view, but it still is not a reliable predictor of real data. Currently, even Business NZ concedes that business opinion is at odds with reality, and looking back, that is not unusual.

Often business explains 'confidence' as the need for 'certainty'. But business confidence was highest in New Zealand when there was the most uncertainty – amid the huge changes to the economy in the early 1990s. For working people it was a time of high uncertainty: high unemployment, job losses, insecurity and increased casualisation of employment. Yet they need certainty too: to get a mortgage to buy a house, to have children and settle them at the same school and build a network of friends, to progress through their careers at work. In the early 1990s wages were falling in real terms and as a proportion of the income their work created. Company profits were rising. If there can never be 'uncertainty' for business, we can never change poor policies: it is an argument to protect a privileged position.

Should we worry? The best theoretical basis for thinking we should be concerned is that when businesses are thinking about investing or hiring new staff they are taking a punt on whether they can increase sales to justify the additional cost. They need to have 'confidence' in the prospects for their business. But in practice confidence cannot be directly observed and survey results are affected by many things that may be irrelevant to those decisions. Its relevance therefore comes down to whether stronger investment and employment follows higher confidence ratings. Does it? In general, the evidence is at best weak; often it is just not true.

Too often the assertion of 'lack of business confidence' is being used by business and their political allies to try to frighten public opinion against current Government policies. It is not based on rational argument or evidence, nor on what is good for New Zealand as a whole – unless we accept that what is good for business is always good for New Zealand. We should insist on business providing evidence rather than emotional scaremongering.

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That confidence thing

Kirk Hope, chief executive of Business New Zealand in a *Dominion Post* column on 21 June[1] listed half a dozen reasons why "business should [be] feeling confident": continued "moderate" GDP growth, near record high terms of trade showing high prices being received on average for exports and low prices paid for imports, employment growth and falling unemployment, low inflation, stable exchange rate, Government accounts in "reasonable shape", share prices at a new high. We might not agree that all of

[1] "Kirk Hope: reality is positive, but fears of heavy-handed regulation is hurting confidence", *Dominion Post*, 21 June 2018, available at https://www.stuff.co.nz/business/104872423/Kirk-Hope-reality-is-positive-but-fears-of-heavy-handed-regulation-is-hurting-confidence.

these are as he describes, but for businesses they certainly are looking good. But, he says, "business perception is not currently matching reality. Confidence dropped to an eight-year low in November on political uncertainty when the new Government took office, and is yet to recover." He cites Business New Zealand's own "Economic Conditions Index" and not entirely accurately. According to their own publications, the index in fact reached a low in September 2017 before the election and has risen every quarter since then (to June 2018). Their business and consumer confidence indicators are up on a year ago.[1]

He listed numerous Government policies business doesn't like, including the end of future oil and gas exploration and a raft of proposed changes to employment legislation, such as pay equity and changes to the Employment Relations Act, blaming them for this supposed fall in confidence. He says they "have the potential" to add cost and reduce international competitiveness. "Business confidence is critical to the wellbeing of our economy, our environment, our jobs, our communities, our families and our futures," he asserted.

The facts are positive; the assertions about business confidence are no more than assertions: they are little more than a threat that if the Government continues to carry out its policies, we should be very afraid. There was no evidence that policies, many of which are simply restoration of settings from the 2000s when the economy was doing considerably better on both economic and fairness measures, would actually reduce the ability of business to do business, let alone that investment or employment was stalling as a result. Indeed the evidence he cited himself is that reality is trucking along quite nicely. The changes in oil and gas exploration were always coming as the world gets serious about climate change, real changes are far off, work is going on to replace those industries, and many in the oil industry internationally could see such changes coming and have been preparing for change by moving into other forms of energy. And surely the moves they complain about, such as combating climate change, recognising our moral obligation to pay women for the full value of their work, and fairer pay systems, are "critical to the wellbeing of our economy, our environment, our jobs, our communities, our families and our futures".

Assertions as to the extent of "confidence" are at their weakest when they are based on nothing more than assertions. Hearsay anecdotal evidence of unobservable emotions by observers with vested interests is not to be relied upon. There are however a myriad of "confidence surveys" of greatly varying rigor and validity which are commonly quoted (as Kirk Hope does) to give the appearance of science to these assertions. The question is then whether the surveys have any meaning.

Minister of Economic Development, David Parker[2], has called ANZ's business confidence survey "junk", quoting the bank's former economist Cameron Bagrie that "I think those surveys are very poor barometers" and "you should throw them away".

The confidence surveys

In New Zealand there are numerous 'confidence' (or business outlook or business conditions) surveys. They don't all measure the same things, and many are not well documented.

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[1] *Business NZ Planning Forecast*, June 2018, available at https://www.businessnz.org.nz/__data/assets/pdf_file/0009/148491/180625-Jun-2018-Planning-Forecast.pdf

[2] "Parker's criticism of ANZ confidence survey based on Bagrie", 18 June 2018, *BusinessDesk*, available at http://www.scoop.co.nz/stories/BU1806/S00398/parkers-criticism-of-anz-confidence-survey-based-on-bagrie.htm

Business NZ's Economic Conditions Index for example is not found on their public website other than in references in their publications (as quoted above). It is a mixture of economic indicators and confidence surveys, and the weighting between them is unclear.

However the most quoted surveys are those from the New Zealand Institute for Economic Research (NZIER) and ANZ Bank. NZIER's Quarterly Survey of Business Opinion (QSBO) has been around in various forms since 1961 and its current methodology makes it the most credible. Each quarter it surveys "a panel of around 3,500 chief executives or their nominees in the three main sectors - manufacturing and building, merchants, and services". It uses a sample of enterprises from the business directory of Statistics New Zealand and the UBD New Zealand Business Directory. It is weighted towards larger firms: it includes all firms with more than 200 employees and excludes all firms with fewer than six employees. Unfortunately it is not publicly available other than through very brief media releases each quarter.

The ANZ Business Outlook survey goes back in various forms to 1983. Its data is publicly available and was supplied as soon as I asked for it. It is not entirely clear how they choose their relatively small sample of around 500, but it appears to be by self-selection (they ask for volunteers to join the survey). ANZ then weight the survey to make it more representative.

The NZIER and ANZ (and most similar surveys internationally) are designed to be quick and simple to be filled in. Typically just one page[1], businesses just tick boxes in answer to various questions as to whether things will improve, stay the same or deteriorate. The number answering "deteriorate" is subtracted from the number answering "improve" and that is divided by the number ticking any of those answers. This 'net' score is reported in some surveys as a positive or negative percentage (as ANZ does), and in others use 50 for neutral, so above 50 means improvement and below 50 means deterioration.

The questions cover general perceptions and views about the firm that is being surveyed ('own activity'). For example, the ANZ survey asks in the first place, "With regard to the New Zealand economy, do you believe that General Business Conditions in 12 months time will have" [tick 'improved', 'remain the same', or 'deteriorated']. Later it asks, "With regard to Your Business, how do you expect the following variables to have changed in 12 months", and the variables include "Real Business Activity (i.e. volume, Not $ revenue)", "Employment", and "Investment in buildings, plant, equipment".

The 'net' method ignores the 'stay the same' responses. For example if from 100 respondents, 60 tick 'deteriorate' and 40 'improve', giving a score of 20 percent (60 minus 40, divided by 100), the score is the same as 30 ticking 'deteriorate' and 10 'improve', with the majority (60) thinking it will stay the same, a very different situation. There can be considerable variation from period to period within such combinations which will not show up in the reported results (see for example Silverstone, 2000).

Before looking at what the surveys do say, it is worth having a quick look at the international evidence.

International research

The international research on business confidence surveys is mixed but overall shows very weak support for them adding anything to official economic information sources. Given that, they can tell us very little about "confidence", to the extent it does have an impact on the real world.

[1] See for example ANZ's questionnaire at https://www.anz.co.nz/about-us/economic-markets-research/business-outlook/

In Australia, Reserve Bank of Australia researchers Roberts and Simon (2001) analysed business 'sentiment' surveys and found that real economic indicators, such as changes in GDP, job vacancies and interest rates, could explain most of their scores. In other words they provided little new information in forecasting what is to come. There was some more "albeit small" information in some actual business conditions surveys (which ask firms about their own experience of current conditions) for forecasting employment growth over the next three months. There is little evidence however that these surveys tell us anything about 'business confidence'. They conclude:

> On balance the conclusion is rather disappointing for the supporters of confidence surveys. While it is unclear whether the surveys actually measure that ephemeral concept 'confidence', it is clear that, with a couple of exceptions, whatever the surveys do measure does not have much predictive ability. That is, confidence surveys don't appear to tell us much that we didn't already know.

A later paper by Reserve Bank of Australia's Aylmer and Gill (2003) also finds that the "business conditions" parts of surveys provided the most information. They have some value in helping forecast the very near future before the official results are available (for example the state of employment for the current three months). But no one survey can be relied upon:

> Given the variability across the survey components, and even between the different surveys, the recommended approach is to focus on a range of surveys. Common themes can then be extracted and light shed on certain sectors, or aspects of the economy, where timely official data are not available. This can then be compared with other partial indicators of the economy such as growth in credit, share prices and corporate profitability. This approach also ensures that too much weight is not placed on a single result.

They point out that what firms are saying can be misinterpreted. When a firm reports an increase in sales for example, they may be saying that sales are above the normal growth trend, or simply that they are growing. If they are reporting whether they are above or below trend, they could report negative sales conditions even though sales are still growing. They also observe false signals (going negative when economic growth was actually occurring) and volatility in all surveys.

An international report by OECD researchers Santero and Westerlund (1996), analysing surveys in 23 OECD countries including New Zealand and Australia, "finds that sentiment measures obtained from business surveys provide valuable information for the assessment of the economic situation and forecasting. However, the relationship between sentiment indicators and output varies considerably across countries and sentiment measures."

At the outset they state that

> At the practical level, confidence cannot be observed or measured directly. Therefore, any assessment of confidence must rely on indicators which are often partial, qualitative and subject to various interpretations. Since such indicators are often useful from a "storytelling" point of view, as they sometimes appear to offer support for assertions or projections that are not otherwise based on very solid or reliable evidence, there is a risk that, because of their relatively intangible nature, they will be used only selectively, i.e. only when they appear to confirm the story being told.

Their main finding is that major movements can have significance, but small ones are not reliable:

> In summary, confidence indicators appear to provide a good picture of major cyclical movements in output; if available in advance of "hard" output data, they may help

> detect significant acceleration or deceleration in output growth when large changes in confidence are observed. Confidence indicators should not, however, be used in a mechanical way for short-term forecasting, because they fail to track in a consistent way small output swings and they do not show a consistent sequential behaviour with respect to output movements.

For New Zealand, the research has focussed on the NZIER's survey. Matheson, Mitchell and Silverstone (2010) find that, by giving more weight to businesses whose answers are close to official data (that is, not using the usual reported scores), the surveys improve "nowcasting" – that is, forecasting imminent official statistics such as for the current or next quarter. For forecasting further into the future, use of the confidence survey does not improve on other forecasting methods. This again seems to imply there is very little "confidence" content in the surveys.

Finally, Reserve Bank researchers, Green and Beaumont (1993), by simply comparing graphs of survey results to actual data, looking at "the past experiences and future expectations of businesses regarding employment, labour turnover, overtime, and profitability" also found that "the indicators are useful for predicting Gross Domestic Product growth one to two quarters ahead." Like the OECD research however they conclude that "the overall results suggest that the QSBO indicators are probably more suited to warning of turning points in economic activity, rather than predicting specific growth rates."

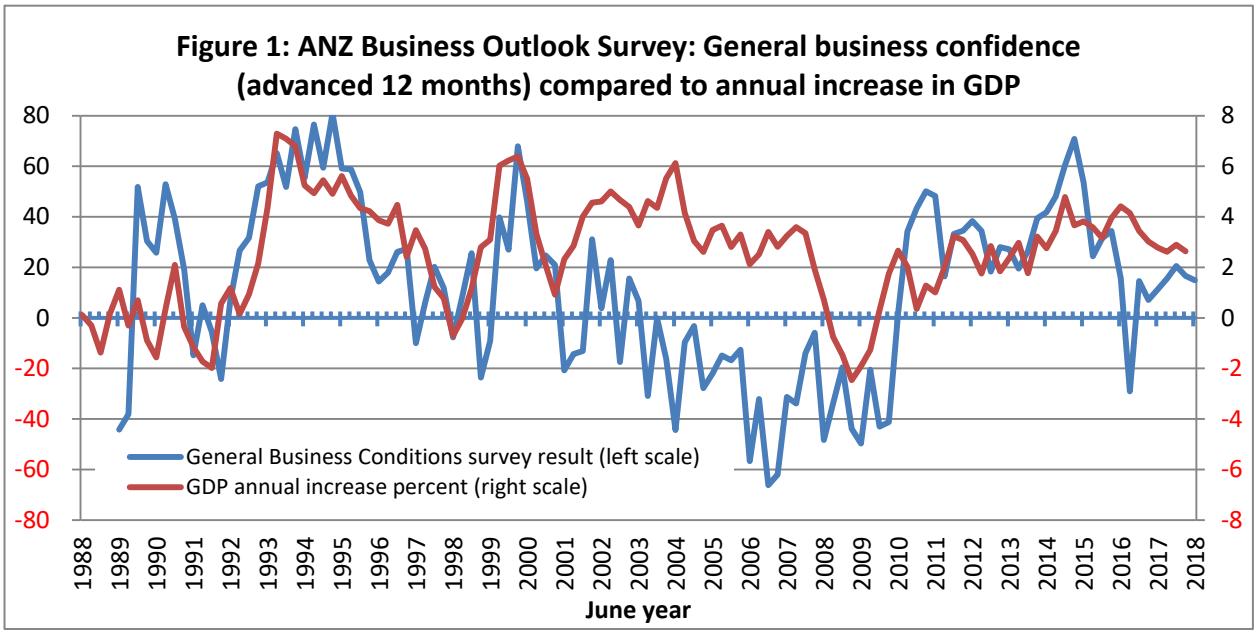
I conclude from this evidence that there is very little content in these surveys that gives information about future economic trends except that major movements *may* be a warning of significant changes in the economy. Of course, what "major" means is a matter of judgement, and even then, the surveys are not always right. The survey results, perhaps using the data in different ways from the published confidence indexes, may help in 'forecasting' some official economic statistics for the current period or the very near future ('nowcasting') but that is probably more about the 'wisdom of crowds' in assimilating currently available information than that mysterious 'confidence' thing.

Confidence survey results

I could not obtain NZIER QSBO data so I focus here on the ANZ Business Outlook Survey. It is interesting in any case because it is frequently referred to and its accuracy has been the subject of recent controversy. Because the most defendable theoretical basis for thinking we should be concerned about business confidence is that it may affect their future investment or hiring of new staff, and the usual assertions in public use of the surveys are about their implications for 'economic growth' I focus on outcomes for investment, employment and production (GDP). The survey asks for responses about conditions 12 months ahead, so in the following the survey results are advanced by 12 months to see how they match the actual conditions they correspond to.

First, what is usually referred to as general business confidence refers to ANZ's first question: "With regard to the New Zealand economy, do you believe that General Business Conditions in 12 months time will have" [tick improved, remain the same, or deteriorated]. Figure 1 compares the index for this question (in blue) to annual GDP growth (in red). The actual values at any point in time are not important: it is the changes from period to period we are interested in.[1]

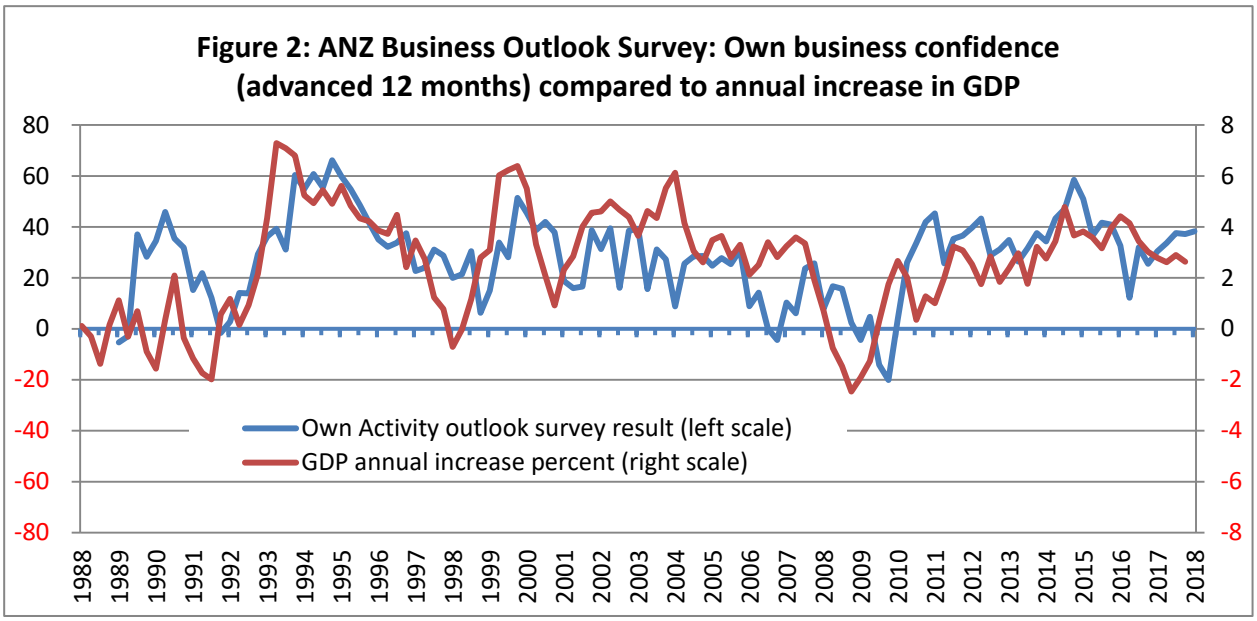
[1] ANZ surveys are monthly but Statistics New Zealand's official data quarterly. We plot ANZ survey's middle (2nd) months of quarters because official results are collected during the quarters. Using the 1st or 3rd month or the average over the 3 months makes little difference for our purposes.



Confidence on this measure was at its highest in the early 1990s, at a time of major restructuring of the economy, high unemployment, negative real wage growth and growing insecurity under the Employment Contracts Act. It seems unlikely that this 'confidence' was due to certainty; more likely the rising profits of the period. It is notable that confidence fell from then until December 2006 with a break only around March 2000 (the Asian Financial Crisis put New Zealand into recession in 1997 and 1998). Initially the fall in confidence roughly followed falling GDP growth (though going in opposite directions at times) but during the Labour-led Clark Government of the 2000s it continued to fall despite strong GDP growth. It would be stretching credibility to say it predicted the Global Financial Crisis that began in 2008 or the local recession that preceded it, but confidence shot up starting in May 2009 (advanced to May 2010 in the figure) at the end of the recession, coinciding with the election of the Key National-led Government. It stayed high through that Government, despite GDP growth that was lower than the previous decade. It plummeted from a 2015 peak (surveyed in 2014) but GDP increases barely moved: this major movement in confidence had no obvious consequences in economic output. The recent fall is shown as taking effect in September 2017 but in time of survey actually dates back to September 2016, well before the 2017 election. It has since gone negative despite continuing economic growth.

It is difficult not to conclude that this is little more than an expression of the political likes and dislikes of business executives, with some disruptions by events such as recessions and changes in product prices.

Turning now to the executives' own firms, Figure 2 shows their outlook in 12 months for their own "Real Business Activity", advanced 12 months and compared to GDP growth. It shows a closer relationship to GDP than "general business confidence", and the downward slope from the early 1990s is somewhat less marked. But it has periods when it is going in the opposite direction from GDP growth, such as 1998, 2004 and 2007 and 2016. In fact, it often appears that the businesses are describing their current activities rather than 12 months ahead. Off the graph, their confidence falls by a similar amount to that shown in 2016. Again, in actual timing of the survey, their confidence began falling in September 2016, well before the election, but never went net negative. It rose after the election from December 2017 and though now falling from a March peak, is still positive.



This survey provides a somewhat better guide to GDP growth than the general confidence indicator but gives far from a reliable forecast.

So what about the impact on employment and investment? Comparing either of the above confidence measures to annual increases in employment (from the Household Labour Force Survey or HLFS) or investment (business investment from gross fixed capital formation in the National Accounts) shows similar problems to the ones described for the comparison to GDP. Figures 3 and 4 below compare businesses' own 12 month ahead employment and investment outlooks to the actual data. I leave you to judge whether the fit is any better. For employment there are periods where the employment intentions line is going in the opposite direction from real changes in employment (for example 2001 and 2013). Investment is in reality so intermittent that the confidence survey misses most of the action.

Conclusion

We would be foolish to entirely dismiss the concept of business confidence as having a role in future investment and employment.

However it is clear that many surveys, including the ANZ Business Outlook survey are not reliable measures either of confidence (it is not even clear what is being measured) or of future behaviour. The NZIER Quarterly Survey of Business Opinion, judging from the research, is probably not a great deal better despite its more rigorous design. They are at best a rough guide and should be treated with considerable scepticism and caution. The surveys and the vague concept of business confidence are too often a code for "what business approves of". If policy is made simply on this basis, nothing will ever change, except to the advantage of business. Rebalancing towards a fairer society – as is urgently needed in New Zealand today – is judged by all too many business executives as "bad for business" regardless of the reality. It is the reality, and what is good for all New Zealanders, that should be the basis for our decisions, not a conveniently ill-defined view of "confidence" that is impossible to verify.

Bill Rosenberg

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Figure 3: ANZ Business Outlook Survey: Own business employment outlook (advanced 12 months) compared to annual increase in employment

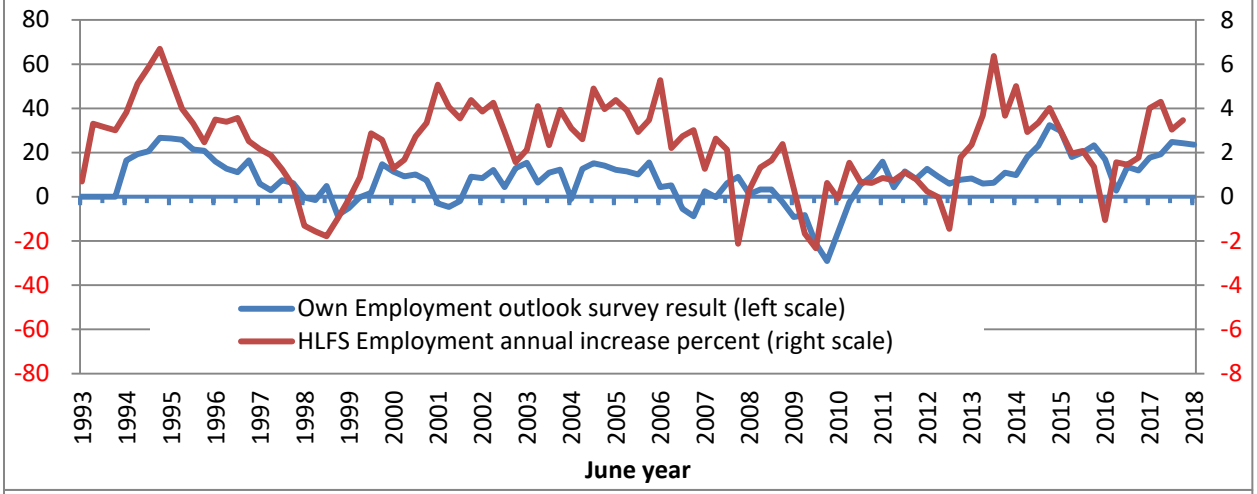
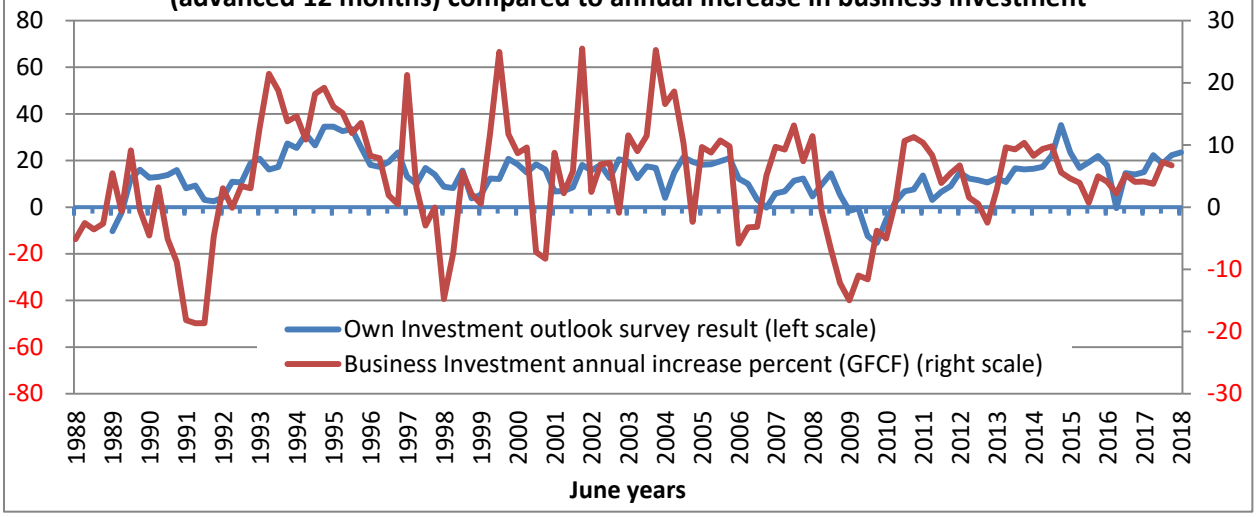


Figure 4: ANZ Business Outlook Survey: Own business investment outlook (advanced 12 months) compared to annual increase in business investment



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Information

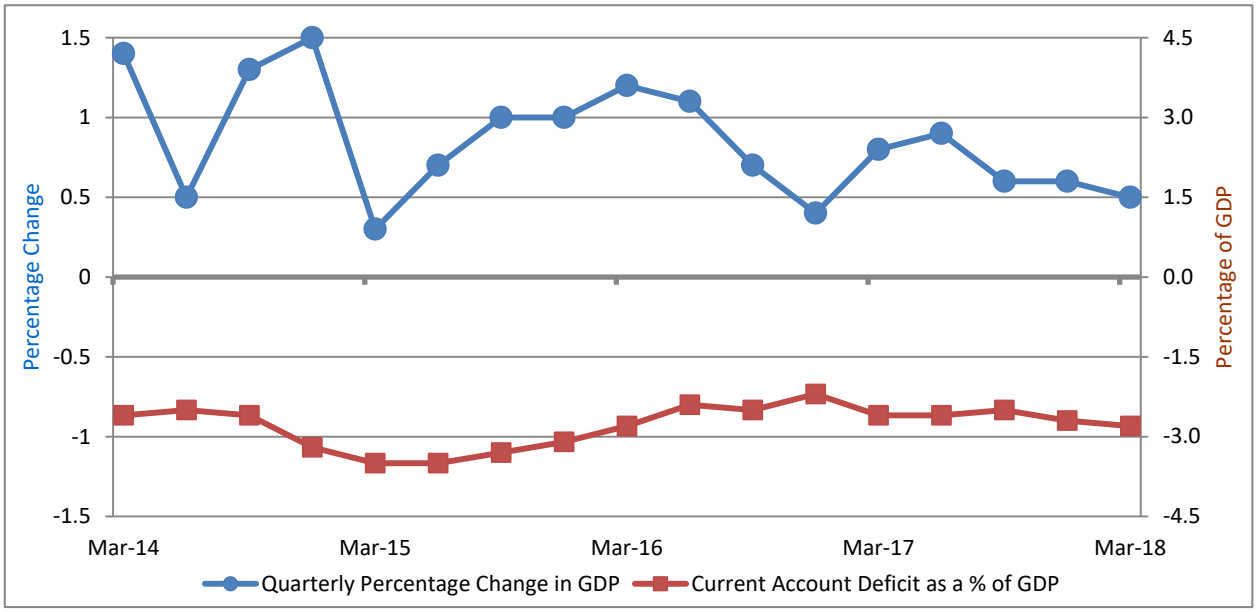
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 18 June 2018 (actuals are in red).

Annual Percentage Change (March Year)	2017-18	2018-19	2019-20	2020-21
GDP	2.7	2.9	3.2	2.9
CPI	1.1	1.9	1.8	1.9
Private Sector average hourly wage	4.0	3.0	3.0	2.9
Employment	3.1	2.0	1.6	1.4
Unemployment rate (% of labour force)	4.4	4.3	4.3	4.2

Economy



- Annual Regional Gross Domestic Product statistics for the year to March 2017 show Auckland producing over a third (37.5 percent) of the nation's goods and services which can be valued in dollar terms – $101 billion out of $271 billion. (Unlike the usually quoted GDP figures, these values are not adjusted for inflation in prices of the goods and services produced.) Next was Wellington with 13.2 percent of the country's production, closely followed by Canterbury with 12.9 percent. At the other end were the West Coast (0.6 percent), Gisborne (0.7 percent) and Marlborough (1.0 percent). Over three-quarters of the production was in the North Island (77.3 percent). In 2016 (latest available), the region with the largest proportion of its production in manufacturing was Marlborough with 21.5 percent, followed by Southland with 19.0 percent, Taranaki with 16.9 percent, and Northland with 14.5 percent. The great majority of the manufacturing production is described as "primary manufacturing", presumably food, forestry, oil and gas processing and similar.

- However production per person (per capita) showed a somewhat different picture. The highest in the year to March 2017 was Taranaki at $70,863 per capita, followed by Wellington ($69,851 per capita), Auckland ($61,924) and Marlborough ($61,402). Canterbury was 6th with $57,551 per capita. At the other end was Gisborne, at $39,896 per capita, not much more than half Taranaki's per capita production. Then came Northland ($40,269), Manawatu-Whanganui ($42,919) and Hawke's Bay ($45,651). However there was less difference on average between the North Island ($57,438) and South Island ($55,578), with New Zealand averaging $57,002 per person overall. The ranking of the regions' per capita income has not changed greatly since 2000 when the series starts, but Hawke's Bay has gone from 8th to 12th among the 15 regions, while Marlborough has gone from 7th to 4th, the West Coast from 13th to 8th, and Otago from 10th to 7th. This reflects different growth rates in the regions: between 2000 and 2017, the fastest average annual growth in per capita production (5.5 percent per year) was in Marlborough, followed by the West Coast (5.1 percent), Otago (4.7 percent), Canterbury (4.6 percent) and Southland (also 4.6 percent). The slowest growth region was Wellington at 3.4 percent followed by our supposed power-house, Auckland, at 3.6 percent. Over New Zealand, production grew 4.0 percent per year on average, but 4.6 percent in

the South Island and 3.8 percent in the North Island. In the last year, the West Coast grew fastest at 7.5 percent, followed by Southland with 7.3 percent, Bay of Plenty and 6.7 percent and Northland at 5.9 percent. Wellington held its bottom spot at 2.9 percent growth and Canterbury joined the main population centres at the bottom, also with 2.9 percent, while Auckland was next at 3.5 percent annual per capita growth.

★ Growth in New Zealand's measured economy in the three months to March 2018 was lower than the 0.7 percent Treasury and Reserve Bank forecasts, with Gross Domestic Product rising by 0.5 percent, down a little from 0.6 percent in the previous quarter. Average growth for the year ended March 2017 was 2.7 percent (and 2.7 percent compared to the same quarter last year). Growth in GDP per person continues to be weak with a rapidly growing population: GDP per person was static in the March quarter (down from 0.1 percent the previous quarter), and up 0.6 percent over the year. GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.3 percent a year. Since 2011 it has averaged 1.5 percent per 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, grew even more weakly: it fell 0.5 percent over the quarter and rose 1.3 percent over the year to March.

★ I estimate that labour productivity, measured by production per hour worked in the economy, fell 0.3 percent in the year to March compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth.

★ Business investment rose by 0.6 percent compared to the previous quarter, with falls in all types of investment other than Plant, machinery and equipment, which rose 2.1 percent. Year-on-year growth was strong however at 5.5 percent, driven by Plant, machinery and equipment, Intangible fixed assets, and Other construction (i.e. other than buildings). Investment in housing fell 0.2 percent in the quarter following a 0.5 percent and 2.9 percent rise in the previous two quarters. It grew only 0.6 percent year on year. Household consumption did not grow in the March quarter in real terms, after rising 1.2 percent in the previous quarter, and it rose 3.9 percent year-on-year. Inflation in the economy as a whole is considerably higher than CPI, with the GDP deflator (a price index for expenditure on the economy's production, reflecting largely the revenue employers are getting for their products) rising 2.7 percent year-on-year, but fell 0.7 percent in the most recent quarter.

★ By industry, the largest contributors to growth in the latest quarter were Manufacturing (up 0.7 percent), Information media and telecommunications (up 2.3 percent), Rental, hiring, and real estate services (up 0.4 percent), Professional, scientific, technical, administrative and support services (up 1.0 percent), and Public administration and safety (up 1.8 percent). There were contractions in Mining (down 0.2 percent), Electricity, gas, water and waste services (down 0.4 percent), and Construction (down 1.0 percent). Year-on-year, the biggest rises were in Retail trade and accommodation (up 5.9 percent), Transport, postal and warehousing (up 5.0 percent), Professional, scientific, technical, administrative and support services (up 4.6 percent), Health care and social assistance (up 4.5 percent), Public Administration and safety (up 4.2 percent), and Wholesale trade (up 4.1 percent). Mining contracted by 2.2 percent.

★ New Zealand recorded a Current Account deficit of $3.0 billion in seasonally adjusted terms for the March 2018 quarter, the largest since December 2008, following a $2.0 billion deficit for the previous quarter. There was a deficit in goods trade ($1.7 billion, seasonally adjusted) following a $0.5 billion deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted deficit of $0.5 billion in goods and services (compared to a $0.7 billion surplus in the previous quarter) including a $1.3 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) was a slight improvement at a deficit of $2.5 billion from a $2.8 billion deficit in the previous quarter (seasonal adjustment not available). For the year to March 2018, the current account deficit was $7.9 billion or 2.8 percent of GDP compared to a $7.7 billion deficit in the year to December 2017 (2.7 percent of GDP). The deficit on investment income was $9.8 billion for the year.

★ The country's Net International Liabilities were $156.1 billion at the end of March 2018, down from a revised $156.9 billion at the end of the previous quarter but up from $157.2 billion a year before. The March net liabilities were equivalent to 54.5 percent of GDP, compared to a revised 55.4 percent in the previous quarter and 56.6 percent a year before. Net international liabilities would take 2.00 years of goods and services exports to pay off, down from 2.18 years a year before. However gross liabilities would take 5.23 years of goods and services exports to pay off. The fall in net liabilities over the quarter was due to a net $0.9 billion valuation increase offset a little by a $0.1 billion net outflow of investment. Without the valuation changes, the net liabilities would have been $156.8 billion. New Zealand's international debt was $289.0 billion (equivalent to 100.9 percent of GDP), of which 29.9 percent is due within 12 months, compared to $140.0 billion in financial assets (other than shares; 48.9 percent of GDP), leaving a net debt of $149.0 billion (52.0 percent of GDP). Of the net debt, $2.9 billion was owed by the government including the Reserve Bank, and $110.4 billion by the banks (38.5 percent of GDP), which owed $152.8 billion gross.

★ Overseas Merchandise Trade for the month of May 2018 saw exports of goods rise in value by 10.4 percent from the same month last year while imports rose 5.7 percent. This created a trade surplus for the month of $294 million or 5.4 percent of exports, following a $193 million surplus in April. These were the highest exports and imports in a May month, and the surplus was above average for a May month. There was a trade deficit for the year of $3.6 billion or 6.5 percent of exports, lower than the 7.7 percent deficit in the year to the same month in 2017. In seasonally adjusted terms, exports fell 0.3 percent or $15 million over the month (compared to a 6.0 percent rise the previous month) led by falls in Fruit (down 9.3 percent or $26 million), Crude oil (down 56.6 percent or $23 million, not seasonally adjusted), Electrical machinery and equipment (down 10.6 percent or $11 million), Dairy (down 0.5 percent or $6 million), and Seafood (down 3.2 percent or $4 million), offset by rises in Logs, wood and wood articles (up 18.7 percent or $73 million), Meat (up 3.3 percent or $20 million), and Aluminium and aluminium articles (up $11 million or 10.9 percent). Seasonally adjusted imports fell 4.3 percent or $221 million over the previous month, creating a trade deficit of $248 million following a $455 million deficit in the previous month. The falling imports were led by Petroleum and products (down 24.9 percent or $151 million, not seasonally adjusted), while rises were led by Mechanical machinery and equipment (up 8.4 percent or $57 million), Electrical machinery and equipment (up 7.9 percent or $31 million), and Plastic and plastic articles (up 15.7 percent or $28 million). In the year to May, 22.8 percent of New Zealand's exports went to China, 16.2 percent to Australia, 9.6 percent to the US, and 57.4 percent went to the top five countries buying New Zealand exports. This was up from 20.6 percent going to China in the

year to May 2017, and 57.2 percent going to the top five destinations. Over the same period, 19.1 percent of New Zealand's imports came from China (compared to 19.7 percent in the year to May 2017), 11.8 percent from Australia, 10.8 percent from the US, and 54.1 percent from the top five countries selling to New Zealand, compared to 55.4 percent a year before.

- The Retail Trade Survey for the three months to March 2018 showed retail sales rose 3.0 percent by volume and 3.4 percent by value compared with the same quarter a year ago. They rose just 0.1 percent by volume and 0.2 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Fuel (up 3.4 percent), Liquor (up 0.2 percent), Electrical and electronic goods (up 3.2 percent), and Furniture, floor coverings, houseware and textiles (up 2.8 percent). Supermarkets and grocery stores (easily the largest single category, with 21.8 percent of sales), rose 0.9 percent and its $45 million increase was over three-quarters of the total $58 million increase in retail sales. Sales fell in many areas led by Clothing, footwear, and accessories (down 5.1 percent), Recreational goods (down 3.7 percent), Motor vehicles and parts (down 1.1 percent), and Non-store and commission-based retailing (which includes online sales, down 1.0 percent). Notably, the increase in fuel prices was the major driver of the 3.4 percent increase in fuel sales: the volume of fuel sales fell 2.1 percent. On the other hand, prices in Non-store and commission-based retailing fell: despite the 1.0 percent fall in the value of sales, volume rose 0.8 percent in the quarter and 10.7 percent over the year.

- The Performance of Manufacturing Index for May 2018 was 54.5, a fall from 59.1 in the previous month. The employment sub-index was at 49.8, a fall from 54.5 in the previous month.

- The Performance of Services Index for May 2018 was 57.3, a rise from 56.4 the previous month. The employment sub-index was 52.8, up from 51.6 in the previous month.

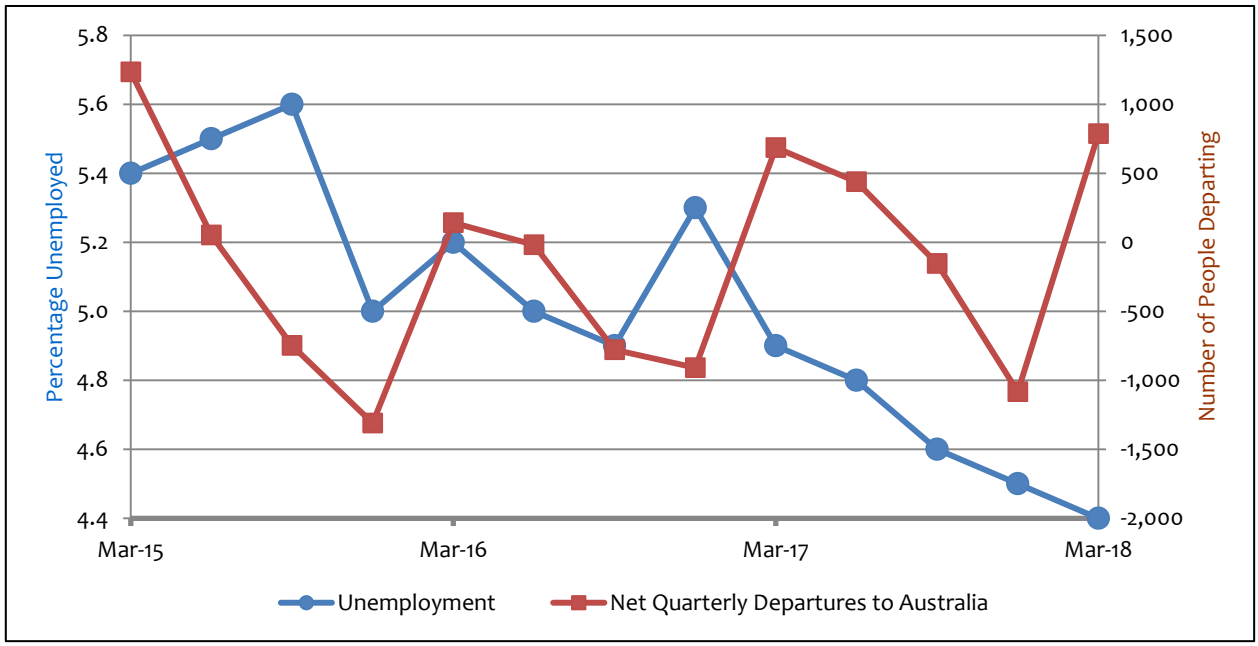
For these indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.

- On 28 June 2018 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. The Governor announced that the OCR will remain at 1.75 percent "for now", a change from the tone of the last few months of "for some time to come". It said the OCR could move up or down as necessary. The Bank retained its positive outlook for the New Zealand economy, with employment "around its sustainable level", echoing the letter of expectations to the Bank from the Minister of Finance instructing that it should direct monetary policy at "supporting maximum sustainable employment" as well as price stability. The Bank observed that price inflation remained below the 2 percent midpoint of its target range "necessitating continued supportive monetary policy for some time to come". It concluded that "The best contribution we can make to maximising sustainable employment, and maintaining low and stable inflation, is to ensure the OCR is at an expansionary level for a considerable period." An interest rate rise is therefore unlikely in the near future. The Bank saw good demand for New Zealand exports, and global prices rising only modestly, but the global outlook was "tempered slightly by trade tensions in some major economies. Ongoing volatility in some emerging market economies continues." There was no echo of the increasingly irrational campaigning by some elements of business, nor reference to falling 'business confidence' (see the Commentary in this issue): "Domestically, ongoing spending and investment, by both households and government, is expected to support growth. However, the recent weaker GDP outturn implies marginally more spare capacity in the economy than we anticipated. The Government's projected spending impulse is also slightly lower and later than anticipated." The

next OCR announcement will be on 9 August 2018 and will accompany a Monetary Policy Statement.

★ According to REINZ, over the year to May the national median house price rose $27,000 or 5.0 percent to $562,000 and REINZ's house price index rose 3.7 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 1.1 percent seasonally adjusted while the house price index fell 0.1 percent. In Auckland over the year the median price was down $10,800 or 1.3 percent at $852,000 while the house price index rose 0.6 percent. Over the month, Auckland's median price fell 0.4 percent seasonally adjusted, and the house price index fell 0.6 percent. Excluding Auckland, over the year the national median price rose $25,000 to $455,000 or 5.8 percent while the house price index rose 6.8 percent. Over the month the median price excluding Auckland was up 0.3 percent on the previous month seasonally adjusted, and the house price index rose 0.4 percent. There were record median prices in Northland (up 6.7 percent over the year to $475,000), Manawatu-Whanganui (up 13.0 percent over the year to $30,000), and Tasman (up 16.2 percent to $612,000). Median prices fell over the year in Auckland (down 1.3 percent), Gisborne (down 5.4 percent), and Southland (down 1.6 percent). Seasonally adjusted median prices fell over the month in Auckland (down 0.4 percent), Gisborne (down 6.2 percent), Manawatu/Whanganui (down 0.1 percent), Taranaki (down 2.3 percent), Nelson/Marlborough/Tasman (down 3.0 percent), Otago (down 4.7 percent) and Southland (down 3.8 percent). Sales fell in seven regions over the month, seasonally adjusted, while over the year, sales fell in seven regions, averaging a rise of 1.3 percent.

Employment



O According to the Household Labour Force Survey (HLFS) the **unemployment** rate in the March 2018 quarter fell to 4.4 percent or 119,000 people, compared to 4.5 percent three months before (122,000 people), seasonally adjusted. If it were the 3.3 percent it was in December 2007, 29,000 more people would have jobs. The seasonally adjusted female unemployment rate fell to 4.9 percent from 5.0 percent three months before, but was still considerably higher than for men (3.9

percent) whose unemployment rate fell from 4.0 percent. Māori unemployment fell from 10.4 percent a year before to 9.6 percent in March 2018, while Pacific people's unemployment fell from 11.0 percent to 8.3 percent over the year. Compared to OECD unemployment rates, New Zealand remained at 13th lowest (out of 35 countries). However New Zealand had the third-highest employment rate at 77.4 percent for 15-64 year olds.

- **Youth unemployment** for 15-19 year olds was 19.2 percent in March, down from 20.3 percent three months before, and from 20.5 percent a year before (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 2018, the unemployment rate was 25.7 percent, up from 21.2 percent a year before. For 15-19 year old Pacific Peoples it was 16.9 percent, almost halved from 32.8 percent a year before. For 20-24 year olds, youth unemployment was 8.1 percent, down from 8.6 percent three months before, and from 8.7 percent a year before. For Māori 20-24 year olds in March 2018 the unemployment rate was 12.9 percent, a fall from 13.4 percent a year before. For 20-24 year old Pacific Peoples it was 14.2 percent, up from 13.0 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 10.1 percent, up from 8.6 percent three months before but down slightly from 10.3 percent a year before. For Māori 15-19 year olds in March 2018 the rate was 16.4 percent, down from 16.8 percent a year before and for Pacific Peoples it was 14.1 percent, down from 17.1 percent a year before. For 20-24 year olds the NEET rate in March was 14.6 percent, down from 14.8 percent three months before and from 15.0 percent a year before. For Māori 20-24 year olds in March the rate was 26.8 percent, a little higher than the 26.6 percent a year before, and for Pacific Peoples it was 24.7 percent, up from 22.3 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (15.0 percent) than those not in education (10.6 percent). There were 84,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, up from 80,000 three months before, but down 2,000 from 86,000 a year before.

- By **region**, in the North Island, unemployment rates fell compared to a year ago in all of the eight regions except Manawatu-Whanganui (which rose from 5.3 percent to 6.4 percent), which also had the worst national unemployment rate. Other North Island regions with high unemployment rates were Northland with 5.8 percent and Bay of Plenty with 5.9 percent. Auckland's unemployment rate was 4.5 percent, down from 5.0 percent a year before, and the lowest in the North Island. The South Island looked better with Tasman/Nelson/Marlborough/West Coast at 3.6 percent (up from 2.8 percent a year before), Canterbury at 3.5 percent (4.0 percent a year before), Otago at 4.7 percent (4.4 percent a year before), and Southland had 2.9 percent unemployment (4.7 percent a year before).

- There were 35,800 unemployed people in March 2018 who had been **out of work for more than 6 months** compared to 44,500 a year before. This is 28.1 percent of the unemployed compared to 32.0 percent a year before, but is still at a much higher level than most of the 2000s. Those out of work for more than a year are 12.7 percent of the unemployed compared to 14.0 percent a year before. The numbers appeared to increase sharply after June 2016, a possible contributor being a change in the survey questions from that date, but numbers are now closer to pre-June 2016, though with a still-rising trend, particularly for those out of work more than 12 months.

- 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 338,000 people looking for work classed as "underutilised", or 11.9 percent of the labour force extended to include these people. Of them, 113,000 were underemployed, 119,000 were officially unemployed, and 105,000 were additional jobless people looking for work. The 11.9 percent underutilisation rate is down on the previous quarter (seasonally adjusted 12.2 percent) and down on 12.2 percent a year before. It is higher for women at 14.6 percent than for men (9.4 percent).

- The number recorded as **employed** rose by 15,000 over the three months to March 2018 (seasonally adjusted). It rose by 79,000 over the year. The employment rate remained at 67.7 percent over the three months. It was 62.6 percent for women and 73.1 percent for men. Similarly the participation rate (the proportion of the working age population, those aged 15 years and over, either in jobs or officially unemployed) changed little from 70.9 percent to 70.8 percent, all in seasonally adjusted terms.

- **By industry**, the actual rise in employment of 6,900 in the three months to the March 2018 quarter was made up of both gains and losses. The biggest gains were of 11,100 in Arts, recreation, and other services, 9,400 in Retail trade, accommodation and food services, 5,300 in Public administration and safety, 4,800 in Education and Training, and 4,000 in Transport, postal and warehousing. These were offset by falls led by 16,500 in Agriculture, forestry and fishing, 9,100 in Construction, and 6,700 in Wholesale Trade. These are not seasonally adjusted. Over the year, the biggest contributors to the 79,400 additional jobs were 22,300 in Professional, scientific, technical, administrative, and support services, and 20,000 in Retail trade, accommodation and food services, offset by falls of 10,400 in Agriculture, forestry and fishing, 6,100 in Information media and telecommunications, and 3,300 in Wholesale trade.

- In the March quarter, total **union membership** was estimated at 408,200, a 2.8 percent increase from 397,000 in the previous quarter and up 8.7 percent from 375,400 a year before. The membership is 19.1 percent of employees compared to 18.7 percent three months before and 18.1 percent a year before. Women make up 57.5 percent of the membership compared to them being 49.2 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men: 22.3 percent compared to 15.9 percent. The increase in numbers was greater for females (up 10.6 percent over the year) than males (up 6.2 percent) so the pay equity settlement is a strong factor (see the industry breakdown below), but not the only one. The rise was greatest in four age groups: 15-24 (up 11.4 percent in the year, 7.2 percent in the quarter), 25-34 (up 15.2 percent in year, 2.8 percent in quarter), 55-64 year olds (up 15.0 percent in year, 3.2 percent in quarter), and 65 years and over (up 12.3 percent in the year and 12.6 percent in the quarter, with female membership rising 34.4 percent in the year while male fell 11.9 percent). The other two age groups also rose over the year but by slower rates. By industry, the rises in both numbers and union density over the year to March were led by Health Care and Social Assistance (up 15,500 and density rising from 40.0 percent to 44.2 percent), Education and Training (up 8,600, density rising from 40.6 percent to 42.5 percent), Public Administration and Safety (up 4,800, density rising from 35.9 percent to 36.5 percent), Manufacturing (up 2,900, density rising from 20.2 percent to 21.9 percent), and Transport Postal and Warehousing (up 2,000, density rising from 28.0 percent to 28.6 percent). However numbers and density fell by small amounts (probably not

statistically significant) in a number of industries. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends.

- In the March 2018 quarter, total **collective employment agreement** coverage was estimated at 406,200 employees, which makes 19.0 percent of employees who said their employment agreement was a collective compared to 18.4 percent three months before and 18.7 percent (387,800) a year before. An estimated 68.1 percent (1,457,300) said they were on an individual agreement compared to 67.8 percent three months before and 66.4 percent a year before, and 6.3 percent or 134,500 said they had no agreement (which is illegal), compared to 6.6 percent three months before and 7.4 percent a year before. A further 6.6 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 16.0 percent for men and 22.0 percent for women. The biggest rise in collective agreement membership was among 55-64 year olds – up 11.9 percent over the year, and 5.5 percent over the quarter. Those aged 65+ rose 9.7 percent in the year and 8.2 percent in the quarter. There was also a strong rise for 25-34 year olds – up 6.5 percent in the year and 7.9 percent in the quarter. Collective agreement membership grew in all age groups over the quarter and fell only for 35-44 year olds (by 2.2 percent) over the year. By industry, the largest rise was in Health Care and Social Assistance (up 12,700 for the year, or 16.1 percent), and there were also large rises in Education and Training (up 5,900 or 7.7 percent), Public Administration and Safety (up 4,200 or 8.7 percent), and Transport, Postal and Warehousing (up 3,500 or 14.8 percent). As with union membership, numbers and density fell by small amounts (probably not statistically significant) in a number of industries.

- By **employment relationship**, in the March 2018 quarter, 90.2 percent of employees (1,930,500) reported they were permanent, 5.3 percent casual (112,600), 2.4 percent fixed term (50,800), 1.2 percent seasonal (25,600), and 0.4 percent employed through a "temporary agency" (7,800). The proportion reporting they were permanent was up from 89.8 percent (1,906,500) three months before and from 90.0 percent (1,862,800) a year before. Women were slightly less likely to be permanent employees: 89.4 percent of women were permanent compared to 90.9 percent of men. Instead, women were more likely to be casual (5.9 percent of them compared to 4.6 percent of men) or fixed term (2.9 percent of women compared to 1.9 percent of men). However more men were in seasonal work than women – 1.5 percent of men compared to 0.8 percent of women. Of the temp agency employees, 3,000 were men and 4,800 women. 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.

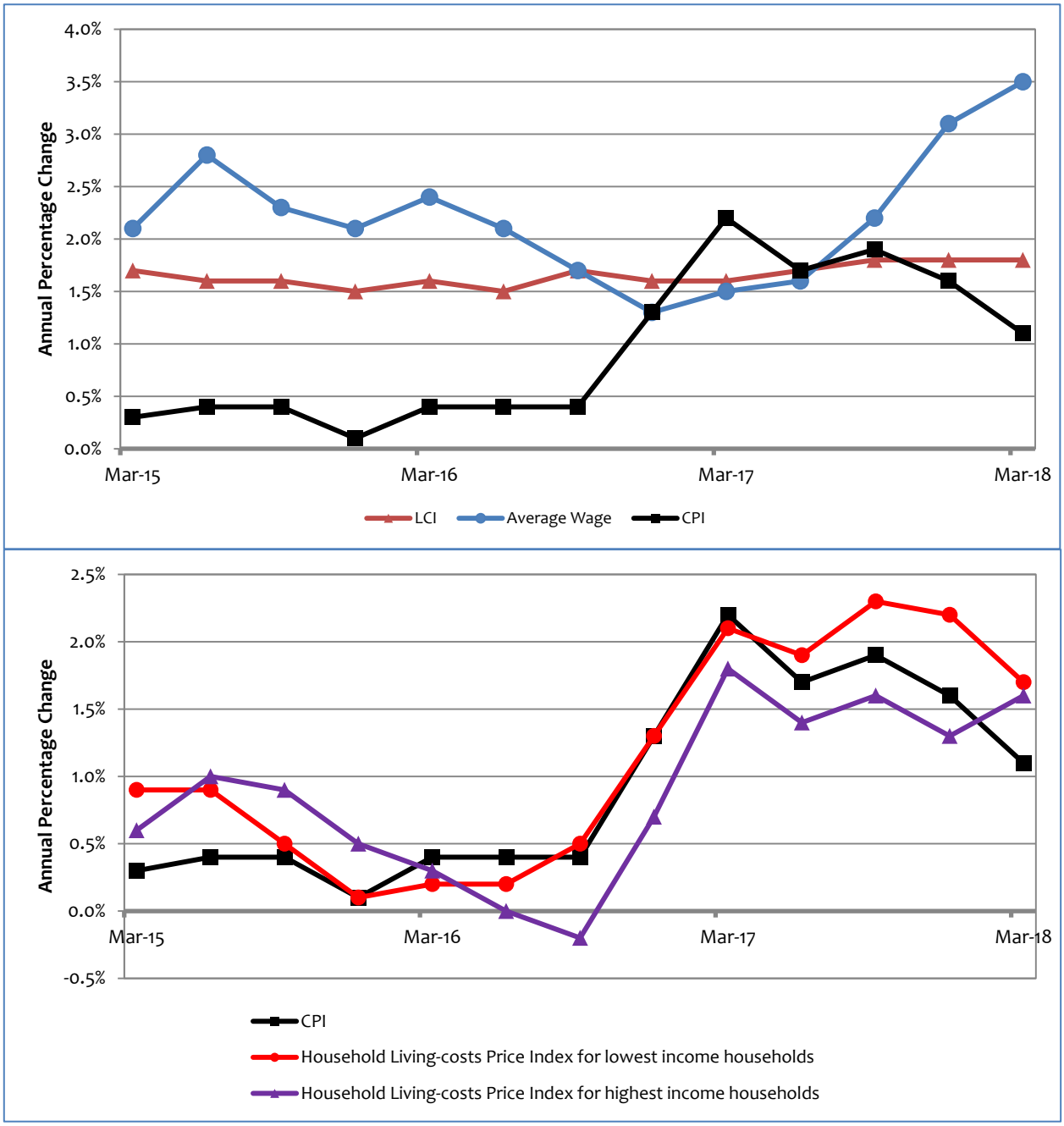
- By **duration of employment (job tenure)**, in the March 2018 quarter, 24.2 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 32.9 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 16.5 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, 26.9 percent of men had been in their jobs for more than 10 years, but only 24.0 percent of women. Age is a significant factor as would be expected: 55.3 percent people aged 15 to 24 had been in their jobs for less than a year, and 31.6 percent of 25-34 year olds, but only 14.0 percent of 45-54 year olds and 10.2 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 2018 there were 118,755 working age people on the Jobseeker benefit, 650 fewer than a year before and 4,286 fewer than three months before. At March, 63,048 were classified as 'Work Ready', and 55,707 were classified as 'Health Condition or Disability'. A total of 273,387 were on 'main' benefits, 4,849 fewer than a year before, mainly due to 3,382 fewer on Sole Parent Support, and 16,401 fewer than three months earlier, mainly because over 8,900 left the Jobseeker Support Student Hardship benefit with the start of teaching in tertiary institutions. Of the 51,649 benefits cancelled during the three months to March, 21,945 or 42.5 percent of the people obtained work, 11.0 percent transferred to another benefit and 13.4 percent became full time students. A further 2,475 (4.8 percent) left on their 52 week reapplication or annual review. A total of 14,705 suffered sanctions, the majority (12,032) on a Jobseeker benefit. Of the total sanctioned, 44.5 percent were Māori, though 35.7 percent of working-age benefit recipients were Māori.

- Job Vacancies Online for the three months to March 2018 showed the seasonally adjusted number of job vacancies rose by 3.5 percent in the quarter and rose 6.9 percent over the same quarter a year previously. All the following are seasonally adjusted. Over the quarter, vacancies in Auckland were up 1.7 percent, in Bay of Plenty up 4.4 percent, Canterbury up 1.3 percent, Gisborne/Hawke's Bay up 3.3 percent, Manawatu-Whanganui/Taranaki up 3.0 percent, Marlborough/NelsonTasman/ West Coast up 3.3 percent, Northland up 1.7 percent, Otago/Southland up 5.0 percent, Waikato up 5.8 percent and Wellington up 0.2 percent. By industry, Accounting was up 2.0 percent, Construction rose 1.4 percent, Education rose 0.6 percent, Health rose 4.0 percent, Hospitality rose 2.4 percent, IT rose 5.8 percent, Manufacturing rose 2.0 percent, Primary was unchanged, Sales rose 2.8 percent, and Other fell 5.2 percent. By occupation, Manager vacancies rose 2.5 percent, Professionals rose 4.0 percent, Technicians and Trades rose 1.5 percent, Community and Personal Services rose 6.5 percent, Clerical and Administration rose 1.5 percent, Sales rose 3.3 percent, Machinery Drivers rose 1.3 percent, and Labourers rose 15.1 percent.

- ★ International Travel and Migration statistics showed 10,780 permanent and long-term arrivals to New Zealand in May 2018 and 5,690 departures in seasonally adjusted terms, a net gain of 5,090 which was up 160 on the previous month. There was a seasonally adjusted net loss to Australia of 310, compared to a gain of 120 a year before. It was made up of a net loss of 660 New Zealand citizens offset by a net gain of 350 citizens of other countries. There was an actual net gain of 66,243 migrants in the year to May, down from 71,964 in the year to May 2017. Net migration from Australia in the year was 547 departures, with 24,945 departures and 24,398 arrivals. However there was a net loss of 5,559 New Zealand citizens to Australia over the year and a net gain of 5,012 from all countries. In May, 13.3 percent of the arrivals had residence visas, 13.2 percent student visas, 39.2 percent work visas, and 4.8 percent visitors. A further 29.1 percent were New Zealand or Australian citizens.

Wages and prices



- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.3 percent in the three months to March 2018 and increased 1.8 percent in the year. It rose more than the 1.1 percent increase in the CPI but that was helped by the pay equity increase in June. Statistics New Zealand says: "The Care and Support Worker (Pay Equity) Settlement Act 2017, which came into effect on 1 July 2017, continued to contribute to higher wages, most notably for private sector care workers. Had this Act not come into effect, LCI wages and salaries would have increased 1.6 percent. The Act also continues to be a key contributor to QES wage growth." The LCI increased 0.3 percent in the public sector and 0.3 percent in the private sector in the three months. Over the year it rose 1.5 percent in the public sector and 1.9 percent in the private sector. During the year, 49 percent of jobs surveyed did not receive a pay rise, and 50 percent of private sector jobs got no rise. For the 51 percent of those jobs surveyed which received an increase in their salary or wage rate during the

year, the median increase was 2.5 percent and the average increase was 3.6 percent. For those jobs in the public sector that received increases, the median increase was 2.0 percent and in the private sector 2.5 percent; the average increase in the public sector was 2.5 percent and in the private sector 3.9 percent. We estimate that over the year, jobs on collective employment agreements were 2.2 times as likely to get a pay rise as those which were not, and were more likely to get a pay rise of any size ranging from less than 2 percent to 5 percent, but somewhat less likely to get one over 5 percent. Only 44 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 stating pay rates got a pay rise in the year to June 2017.

- The Quarterly Employment Survey for the three months to March 2017 found the average hourly wage for ordinary-time work was $30.96, up 0.9 percent on the previous quarter and up 3.5 percent over the year, significantly more than the 1.1 percent rise in the CPI. Female workers (at $28.85) earned 11.9 percent less than male workers (at $32.74) for ordinary time hourly earnings. The average ordinary-time wage was $28.92 in the private sector (up 1.1 percent in the quarter and 4.0 percent in the year) and $39.25 in the public sector (up 1.0 percent in the quarter and 1.1 percent in the year). Average total hourly wages (including overtime) ranged from $19.64 in Accommodation and food services and $21.80 in Retail trade, to $44.30 in Finance and insurance services, and $40.64 in Information, media and telecommunications. In Accommodation and food services, 56.6 percent of employee jobs were part time, and in Health care and social assistance 42.6 percent were part time; in Retail trade 40.7 percent were part time; 35.7 percent were also part time in Arts, recreation and other services, 24.8 percent in Professional, scientific, technical, administration and support services, and 23.7 percent in Education and training. Together these six industries made up 81.0 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 0.5 percent in the March 2018 quarter compared with the December 2017 quarter. It also rose 0.5 percent in seasonally adjusted terms. It increased 1.1 percent for the year to March. For the quarter, the largest single upward influence was Alcoholic beverages and tobacco (up 4.3 percent due to the annual rise in taxes on tobacco) contributing over half – 58.8 percent – of the rise. Next was Housing and household utilities contributing 28.8 of the total rise, and up 0.6 percent (mainly due to rent rises), followed by Food making up 19.7 percent of the rise (up 0.5 percent), driven mainly by Fruit rising 7.6 percent. Transport on average fell 0.2 percent, after a big rise in the December quarter, but it was a mixed bag: new vehicle prices went up 2.7 percent, contributing 23.9 percent of total CPI rise, and similarly Petrol rose 2.7 %, making 22.6 percent to the CPI rise. However International air transport fell 14.4 percent, subtracting 57.4 percent from the CPI rise, so the effect of the Transport group as a whole was almost neutral, reducing the CPI by 6.6 percent. Over the year, Housing and household utilities were easily the biggest driver in the rise, up 3.1 percent and contributing almost two-thirds (65.4 percent) of the CPI increase with new housing up 4.7 percent, rents up 2.1 percent, and all the other subgroups rising faster than overall CPI: Property maintenance up 4.4 percent, Property rates and services up 3.0 percent and Household energy up 2.7 percent. The next largest contributor to the CPI rise was Alcoholic beverages and tobacco (up 4.5 percent, making up 27.0 percent of the CPI rise), while the Miscellaneous group contributed another 16.0 percent mainly due to insurance rising 5.1 percent (with house insurance up 14.9 percent), but Real estate services, which rose 4.7 percent, contributed too. Rents rose fastest in Wellington but fell in Canterbury; new house prices

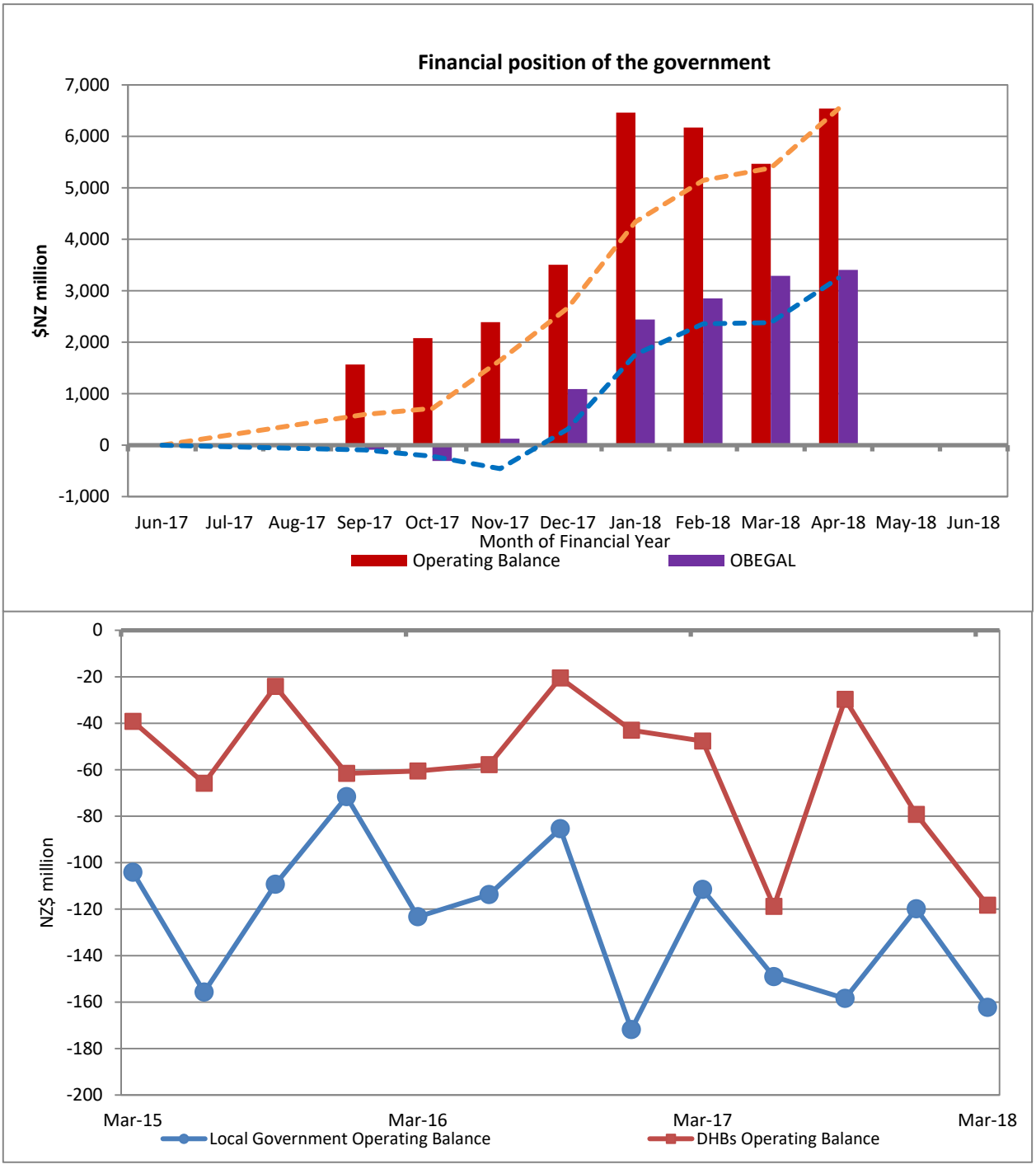
rose fastest in Auckland, and slowest in Canterbury. Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in March (down 0.2 percent in the quarter and 1.1 percent over the year) though the fall is slowing. In seasonally adjusted terms, the CPI rose 0.5 percent over the last three months, Food fell 0.6 percent, Alcoholic beverages and tobacco rose 1.3 percent, Clothing and footwear rose 0.3 percent, Housing and household utilities rose 0.8 percent, Communications fell 0.8 percent, Recreation and culture rose 0.8 percent, and Education fell 6.7 percent (under the influence of free first year tertiary fees). Over the year, in Auckland consumer prices fell 0.6 percent, Wellington rose 0.5 percent and they fell 1.1 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was negative 0.1 percent but prices rose 0.9 percent in the rest of the South Island.

- The Household Living-costs Price Indexes (HLPIs) for the year to March 2018 again showed lower income households experiencing faster price rises than higher income households over the year, though not in the latest three months. Lowest spending households saw their living costs rise 1.8 percent over the year while prices for the highest spending households rose only 1.4 percent. The difference occurs because they spend their money on different things. Prices for the necessities of housing and food dominate low income households' spending: 54.5 percent of the expenditure of the lowest income one-fifth (quintile) of households went on Food and Housing and household utilities in 2018, compared to being only 32.7 percent of the expenditure of the highest income one-fifth. Over the year, the All households HLPI index rose 1.7 percent, the Beneficiary households index rose 1.9 percent, the Māori households index rose 2.0 percent, and the Superannuitant households index rose 1.8 percent. By income quintile, the index for the lowest income households (quintile 1) rose 1.7 percent, quintile 2 rose 1.7 percent, quintile 3 rose 1.7 percent, quintile 4 rose 1.8 percent, and quintile 5 (the highest incomes) rose 1.6 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 1.8 percent, quintile 2 rose 1.8 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.5 percent, and quintile 5 rose 1.4 percent. Over the March quarter, the All households HLPI index rose 0.8 percent, the Beneficiary households index rose 1.0 percent, the Māori households index rose 1.3 percent, and the Superannuitant households index rose 0.6 percent. By income quintile, over the quarter the index for the lowest income households (quintile 1) rose 0.7 percent, quintile 2 rose 0.8 percent, quintile 3 rose 1.0 percent, quintile 4 rose 1.1 percent, and quintile 5 rose 0.9 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.8 percent, quintile 2 rose 0.9 percent, quintile 3 rose 1.0 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.6 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 fourteen different types of households. See the commentary in the November 2016 Bulletin for more detail. Weights reflecting the proportion of different products bought by households were updated starting from the December 2017 release.

- The Food Price Index did not move in the month of May 2018 (and fell 0.1 percent in seasonally adjusted terms). Food prices fell 0.1 percent in the year to May 2018. Compared with the previous month, fruit and vegetable prices fell 2.0 percent (and were down 1.9 percent seasonally adjusted); meat, poultry, and fish rose 0.8 percent; grocery food prices fell 0.3 percent (and did not move when seasonally adjusted); non-alcoholic beverage prices rose 1.1 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 2018, core Crown tax revenue was $10 million (0.0 percent) higher than forecast in the 2018 Budget Economic and Fiscal Update (BEFU 18). Corporate tax was $0.1 billion below forecast and PAYE deductions were $0.2 billion ahead of forecast. Overall core Crown revenue was $138 million or 0.2 percent higher than forecast. Core Crown expenses were $259 million (0.4 percent) below forecast with variations across several departments. The resulting Operating Balance before Gains and Losses (OBEGAL) was $0.2 billion better than forecast after taking into account a higher than forecast deficit at ACC "due to higher than expected claims related expenditure", leaving the OBEGAL with a $3.4 billion surplus instead of the $3.2 billion forecast. The

Operating Balance was virtually on forecast, being just $4 million better than forecast with a $6.5 billion surplus. Net debt at 22.1 percent of GDP ($62.5 billion) was $0.2 billion lower than forecast. Gross debt at $87.5 billion (30.9 percent of GDP) was $0.2 billion less than forecast. The Crown's net worth in financial terms was $47 million higher than forecast at $117.2 billion.

★ District Health Boards had 201 fewer full time equivalent staff than planned at the end of April 2018 (64,611 compared to 64,812 planned). Exceptions were Medical Personnel (doctors – 119 over plan) and Nursing (403 over plan), but there were shortfalls in Allied Health Personnel (422 short), Management/Administration staff (243 short), and Support Personnel (58 short). Average costs per full time equivalent staff were $250 below those planned ($95,240 compared to $95,580). The DHBs had accumulated combined deficits of $142.0 million in the ten months to April. This is $53.3 million worse than their plans. The Funder arms were in surplus by $107.6 million, $39.9 million more than the $67.6 million surplus planned, and Provider arms (largely their hospitals) in deficit by $256.4 million, $97.3 million worse than planned. The Northern region was $1.1 million behind plan with a deficit of $9.6 million and two of the four DHBs in deficit. The Midland region was $27.5 million behind plan with a deficit of $35.8 million and all of the five DHBs in deficit. Central region was $9.3 million behind plan, a combined $36.9 million deficit and all of the six DHBs in deficit. The Southern Region was $15.5 million behind plan with a $59.8 million deficit and three of the five DHBs in deficit, with Canterbury showing a $42.1 million deficit and Southern $15.6 million. In all, just four of the 20 DHBs were in surplus and just two were ahead of plan. The DHB furthest ahead of plan was Capital and Coast by $2.5 million though with a deficit of $15.4 million, and Waikato was furthest behind, by $12.8 million with a deficit of $16.4 million. Capital expenditure across all DHBs was behind plan with $295.6 million spent out of $471.8 million planned.

★ Local Government in the March 2017 quarter recorded a 0.6 percent ($15.2 million) fall in operating income in seasonally adjusted terms and a 1.0 percent rise in operating expenditure ($27.2 million) including a 3.7 percent rise in employee costs (up $21.1 million) compared to the previous quarter. This resulted in an operating deficit of $162.3 million in the quarter, compared with a deficit of $119.9 million in the previous 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 all are seasonally adjusted figures which are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin201.

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