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Commentary

TPPA: the economic case

Summary

The Transpacific Partnership Agreement (TPPA) will be signed by the trade ministers of 12 countries in Auckland on 4 February. So this is a good time to look at the economic evaluations of the agreement. Politicians and lobbyists use these to find large-sounding numbers to throw around. Turn on the garbage filter you use when a door–to–door salesman knocks.

The identifiable gains are tiny. For New Zealand, the gains that have a robust case are 0.2 percent of GDP. They are puffed up to something bigger by including deregulation (removal of "non-tariff measures") as positive. That risks removing some of the protections for health, safety, financial security, quality services and so on is counted as a gain on the basis that it creates more commercial opportunities.

MFAT commissioned a model that estimated a 1.4 percent gain by 2030 which it reduced to 0.9 percent because of concerns about the way these non-tariff measures are modelled. This would mean that the economy would grow by 47.9 percent by 2030 instead of 47 percent – a difference on the margins of being able to be reliably measured.

It is as if your employer came to you and said "I'll give you a 0.9 percent pay rise in 15 years time on condition I have a lot more control over your life from now on."

Even these numbers are based on assumptions including no change in employment and no change in inequality – assuming away some of the most important questions about these deals. A model which does not make these assumptions finds increased inequality and reduced employment. All the gains go to investors and workers receive a reduced share of the income their work generates. It finds a reduction in employment, and reduced government expenditure – making it more difficult to help people through job losses and support higher value industry strategies.

Neither do these models include costs such as higher prices of medicines, recordings and books affected by longer copyright periods and more stringent patent conditions – the anti-free trade parts of the agreement. Most importantly, they don't evaluate the social and environmental costs or the impact on sovereignty and future economic development options.

The Transpacific Partnership Agreement (TPPA) will be signed by the trade ministers of 12 countries in Auckland on 4 February (see the box on the next page). So this is a good time to look at the economic evaluations of the agreement. There are now several.

Politicians and the lobbyists of industries which stand to gain from the agreement use these evaluations to find large-sounding numbers to throw around and this commentary will take a look at these numbers. When hearing them, you need to turn on the same garbage filter you use whenever a door–to–door salesman knocks.

To summarise what we find: in fact the identifiable gains are tiny. For New Zealand, the gains that have a robust case are 0.2 percent of GDP. They are puffed up to something bigger – 0.8 percent to 3 percent depending on what the modellers count as gains, and MFAT has a 0.9 percent estimate – by including deregulation as positive. That risks removing some of the protections which we have for health, safety, financial security, quality services and so on is counted as a gain on the basis that it creates more commercial opportunities. Even these numbers are based on assumptions including no change in employment, no change in inequality and no change in the balance of trade which assume away some of the most important questions about these deals. A model which does not make these assumptions finds increases in inequality and falling employment. Neither do these calculations include costs such as higher prices of medicines, recordings, books and other products affected by longer copyright periods and more stringent patent conditions – the anti-free trade parts of the agreement. Indeed at least one evaluation appears to have counted these as gains on the highly contentious basis that they encourage investment. Nor do the models evaluate the social and environmental costs or the impact on future economic development options.

Signing the TPPA

The act of signing is more symbolic than real: it simply signifies an intent to ratify the agreement. Ratification is the formal and legal commitment to it. But for at least the US which requires it to be passed in Congress, ratification is anything but certain. None of the candidates in November's presidential election who are polling more than 5 percent currently support it, according to Lori Wallach from the US Public Citizen organisation. Support for it is toxic for many members of Congress hoping to be re-elected.

It is unlikely to be put to the vote until after the election – perhaps in the 'lame duck' session of the old congress straight after the election in November, but more likely not until after the new Congress and President are sworn in. And even then getting enough votes will be difficult – perhaps even more so than now.

Until the US ratifies it, the TPPA will not come into force because it requires at least 6 countries, representing at least 85 percent of the combined output (GDP) of the 12 countries to ratify it. The US represents almost two-thirds of the total (62 percent by my calculations based on IMF data), so it effectively has a veto on bringing it into force. It can, and is highly likely to, use that to force new requirements on other countries to satisfy the pharmaceutical, tobacco and financial corporations and the Congressmen representing them who are insisting on changes to get their vote.

It is vital to remember that these calculations cover a very small part of the agreement. There is much else in the agreement that must be weighed in the balance, and it is those things that make many people – unions, all the opposition political parties, environmentalists, large parts of the health sector, many Māori, and many others – oppose it. The right of overseas investors to sue the government in secretive offshore tribunals of trade lawyers for loss of profits – Investor-State Dispute Settlement (ISDS) – is foremost among the concerns because of the leverage it gives these corporations against progressive changes a government might want to make for the environment, human and labour rights, health, other public services, or economic and financial security. But there are many other aspects cramping future government options including severely restricting the use of government procurement for industry development and social purposes, undermining a social role for state owned entities such as public broadcasting, commercialisation of public services and giving overseas corporations a much greater influence over government decisions.

The debate over the TPPA is in the end about views of the future of New Zealand: one that relies on 'the market' to determine our options, and low value commodity exports to dominate our economy – or one that sees an important government role in encouraging high value industry, supporting people through change and creating structures (such as strong public services and strengthened collective bargaining) that ensure all share in an increasing standard of living and quality of life.

Evaluations

At least three economic evaluations have been published since agreement was reached on the final text of the TPPA. One was commissioned by MFAT (Strutt, Minor, & Rae, 2015), one published by the World Bank (Lakatos, Maliszewska, Ohnsorge, Petri, & Plummer, 2016), and one by the Global Development and Environment Institute at Tufts University in the US (Capaldo & Izurieta, 2016). An earlier series of economic evaluations by two of the authors of the World Bank study, Peter Petri and Michael Plummer of the Peterson Institute for International Economics, a strong advocate of increased globalisation, was thoroughly critiqued by economist Geoff Bertram and environmental analyst Simon Terry in 2014 (Bertram & Terry, 2014) and the World Bank modelling appears to have been modified reflecting some but not all of their criticisms.

All these evaluations are based on complex mathematical models of the world economy. None would pretend to be perfect: the nature of economies is that they are so complex that simplifying assumptions must always be made. It is the assumptions made in setting up these models that is crucial to understanding the significance of their predictions. The first two use "dynamic computable general equilibrium" (DCGE) models with similar sets of assumptions. The third uses a model developed in the United Nations: the United Nations Global Policy Model (GPM) which has very different assumptions.

A critique of MFAT's study and of the economic impact of the TPPA has been published as one of a series of expert publications funded by the Law Foundation and the Public Service Association (available at https://tpplegal.wordpress.com/nzlf-expert-paper-series/). Authored by Barry Coates, former head of Oxfam New Zealand, well-known business journalist Rod Oram, Geoff Bertram and Auckland Professor of Economics Tim Hazledine, it is worth reading for a wide-ranging authoritative assessment (Coates, Oram, Bertram, & Hazledine, 2016). I'll refer to this as the 'Expert Paper'.

The official MFAT study estimated that New Zealand's production – our Gross Domestic Product or GDP – would by 2030 increase by up to 1.4 percent above "business as usual" growth. As we will see, MFAT has reduced that estimate to 0.9 percent. The Expert Paper estimates GDP would have grown by 47% anyway using Treasury projections. So this estimate is that the economy would grow by 47.9 percent by 2030 instead of 47 percent – a difference that is on the margins of being able to be reliably measured.

Let's be clear what this means. It is as if your employer came to you and said "I'll give you a 0.9 percent pay rise in 15 years time on condition I have a lot more control over your life from now on." Note that this is 0.9 percent once off, perhaps accumulating gradually over 15 years. It's not a 0.9 percent rise each year, year on top of year. It's a one-time-only increase on your pay rate to $147.90 for every $147.00 you'd have got anyway.

It is as if your employer came to you and said "I'll give you a 0.9 percent pay rise in 15 years time on condition I have a lot more control over your life from now on."

Politicians are using this to tout the gains as $2.7 billion. But that is just 0.9 percent of what GDP is projected to be by 2030. It is still 0.9 percent, but a number with 'billion" in it sounds much better.

The World Bank evaluation estimated additional growth of approximately 3 percent by 2030 compared to the 47 percent it is likely to grow anyway. We'll dissect this a little further below. It would be much less for Australia (0.7 percent) and the US (0.4 percent) – and it would hurt the rest of the world.

Inequality and employment

But that is not the whole story. The official estimate is that the economy will grow by 0.9 percent, but that doesn't mean each of us will share equally in that growth. We won't. But the DCGE models used for these estimates assume that it won't lead to greater inequality – that is, it will be shared equally – and that it will have no effect on the number of jobs, on employment.

You need to remember this when politicians say "TPPA means more jobs". That is hocus-pocus if they are relying on the same models as these ones they use to claim increases in GDP. The models they quote assume there will be no more (or less) jobs overall. Jobs could well be lost but it assumes that if any jobs are lost when an industry is destroyed by international competition, the workers automatically and painlessly find jobs in other industries that are boosted by the change in the economy. It takes no account of costs of adjustment – of production lost from people being out of work, or the welfare support, retraining or relocation needs – let alone human costs.

The model used by the Tufts University study is designed with addressing these flaws in mind. It does not assume zero effect on inequality, nor does it assume zero effect on employment. The study assumes the same effects on trade as the 2012 Peterson Institute model critiqued by Bertram and Terry but estimates the effect of the TPPA on inequality, employment and government spending. It estimates that New Zealand's GDP will grow by only 0.8 percent by 2025 above business-as-usual (and actually shrink in the US and Japan).

But more interestingly, it estimates that the share of the income from our economy that working people get (the labour share of income) will reduce by 1.45 percent of GDP by 2025. In other words, inequality will increase because in net terms, all the benefits of the higher production of the economy – plus some – will go to investors. Corporations will benefit at the expense of working people. The study also estimates that employment will *fall* by 2025 compared to its expected growth without TPPA. The estimated fall for New Zealand is 6,000 jobs (448,000 jobs in the US): increased employment cannot be assumed. In addition other people will lose their jobs – but eventually find new ones.

This emphasises the importance of government assistance for people during these traumatic processes, and industry strategies to ensure new jobs are created which are at least as good as the old ones. But the model estimates that government expenditure will instead reduce because it will respond to these downward pressures on wages and loss of employment by reducing company costs including company taxes. The government will therefore have *less* capacity to respond to 'adjustment' needs.

That's the first thing to remember about these evaluations: their estimates for growth are tiny, far into the future, and mostly assume that some of the things we are most worried about won't happen when we know that they will.

Deregulation

The second thing to remember is that even these numbers are boosted by controversial assumptions about the way the agreement works. Removing tariffs (taxes on imported goods) is the most basic action to free trade. Economists can model this reasonably well, but the numbers come out even smaller – 0.01 percent increase in GDP for New Zealand according to a US Department of Agriculture study, 0.2 percent of the total 1.4 percent estimated in MFAT's study. Most tariffs went years ago, and the great majority of the supposed gains from the TPPA and similar agreements are now mainly from removing so-called non-tariff measures on goods trade (70 percent of the estimated gain in MFAT's study) and opening up services to international competition (6 percent of the estimated gain). These so-called barriers to international trade can be things we value: food safety regulations, labelling requirements, country of original labelling, training and qualification requirements, government provision of services, state-owned enterprises, restrictions that ensure services are provided by local not for profit organisations, controls on foreign investment, standards of service and many more. Getting rid of these so-called barriers is familiar to us as deregulation – think leaky homes, our terrible record of workplace injury and death, the finance company collapses.

Some of the so-called barriers may be less desirable: for example an importer who has to put a new label on its product even though it contains the same information as when it is sold in another country. But if we agree that all countries will have the same labelling requirements we have to be very sure that it doesn't lead to everyone having to put themselves at risk because it is the lowest standard – a race to the bottom. It mustn't make it difficult to make needed changes such as warnings, medical information or controls on alluring designs to reduce consumption of sugar or alcohol like the labelling requirements attacked by the tobacco companies.

So while these economic models treat the removal of these so-called non-tariff barriers as a boost to production, in fact the removal of them may have a real cost in safety, quality of food, quality of services, sovereignty or quality of life which is never taken into account in the models because it is contentious and very difficult. MFAT, having commissioned its modellers to do make these estimates just said "ok, we'll halve the benefit we estimate from the removal of non-tariff barriers on goods". Half is just plucked out of the air. They did nothing to recognise the problems with removal of regulation of services – such as finance, health, education, architecture, postal services, telecommunications – which are even more contentious (in contrast, the World Bank study halves these). So 'benefits' in these models are from a commercial point of view – not from the point of view of people who care about our health, society and environment.

Exports, imports, and who benefits from of the removal of tariffs?

Thirdly, the 'Expert Paper' points out that the public case made for the TPPA is tariff reductions that benefit exporters. However, when tariffs, which are taxes on imports, are removed, a number of things can happen. The exporter could get a higher price because it is not losing the tariff on the way over the border – in which case consumers buying the goods would see no difference in price. Or consumers buying the goods could benefit from a lower price because the tariff no longer pushes the price up – in which case exporters see no benefit. Or it could be somewhere in between. It all depends on how competitive the situation is – how much control of the market the exporter or the supply chain that buys its goods has. The models assume that consumers will get all the benefit. On more realistic

assumptions, the Expert Paper considers that only half of benefit from tariff reductions would go to exporters.

Advocates also like to point to the increase in exports the TPPA is estimated to generate. But it will also increase imports. MFAT's study estimates that exports will increase just 0.4 percent as a result of tariff reductions – but imports will increase over twice as much: 0.9 percent. Adding on the effects of removing non-tariff measures takes the estimate for exports to an increase of 2.2 percent – but an increase of 2.5 percent in imports. The net effect is a worsening balance of trade.

Counting the costs

Fourthly, remember that none of these models count the costs. I have already mentioned the adjustment costs of increased globalisation. In addition there are economic and social costs of higher-priced medicines, books and music; the higher risk of financial crises which could more than reverse any small economic gains; the cost of corporations suing the government through ISDS – both legal costs and the impact on our future choices; the cost of remaining in a low value economy; the increased difficulties in putting public health measures into place to combat excess alcohol use and obesity.

One of the most important costs could be cutting off the possibilities of New Zealand's future economic development towards a higher-value model, providing higher wages and less dependence on volatile commodity prices. Defenders of these models will say that increased international competition improves the productivity of New Zealand firms and leads to better economic performance. Our history since tariff reductions began in a big way in the 1980s and 1990s is not good evidence for this: it has led to an increased dependence on low-value commodity exports and a harsh environment for new firms. The opposite view is that they hinder development. In the Expert Paper, Rod Oram makes a strong argument for this, concluding that "while the TPPA and other trade agreements will facilitate two-way trade and investment, the benefits might be asymmetric. Large-scale overseas companies with close connections to their consumers will likely find it easier to tap into New Zealand resources than small New Zealand companies will find it to develop relationships with overseas consumers... While at face value some of its measures might help New Zealand companies progress in global value chains, this analysis shows there are powerful counter-arguments that TPPA will keep them at the bottom of value chains, making them and the country poorer for it."

As soon as we get into this territory, those on both sides of the argument can make cases regarding longer term 'dynamic' effects for which the economic models provide little help. We're back to looking at evidence and experience.

Only estimates

Finally – these numbers provide only estimates. Estimates for the Australia-US free trade agreement before it came into force in 2005 proved to have greatly over-sold it (e.g. Armstrong, 2015a, 2015b). The New Zealand government claims that its agreements have always turned out better than predicted – yet most of them haven't been properly evaluated and they cannot be judged from a few years of experience. But in any case in saying this they are acknowledging this modelling is only as good as the assumptions the modellers make – and that is all-important as we have seen.

In conclusion

For a prosperous, fair and environmentally sustainable society, New Zealanders need good industry development policies that nudge the economy in the high value, sustainable direction producing full employment and good jobs. We need an enabling state that provides a strong welfare system that helps people when the constant change brought by globalisation (intensified by the TPPA) throws them out of work or destroys their livelihoods, provides the education and training, health and other social services they need to thrive, and effective regulation to protect the environment, health, safety and people's physical and financial security from powerful corporations. We need effective unions and other advocates for people's rights who ensure a fair share of the economy's income flows into the homes of working people.

All of these are made much more difficult by aspects of the TPPA. It is part of, and cements us into, the failed neoliberal policies that got us where we are today.

Bill Rosenberg

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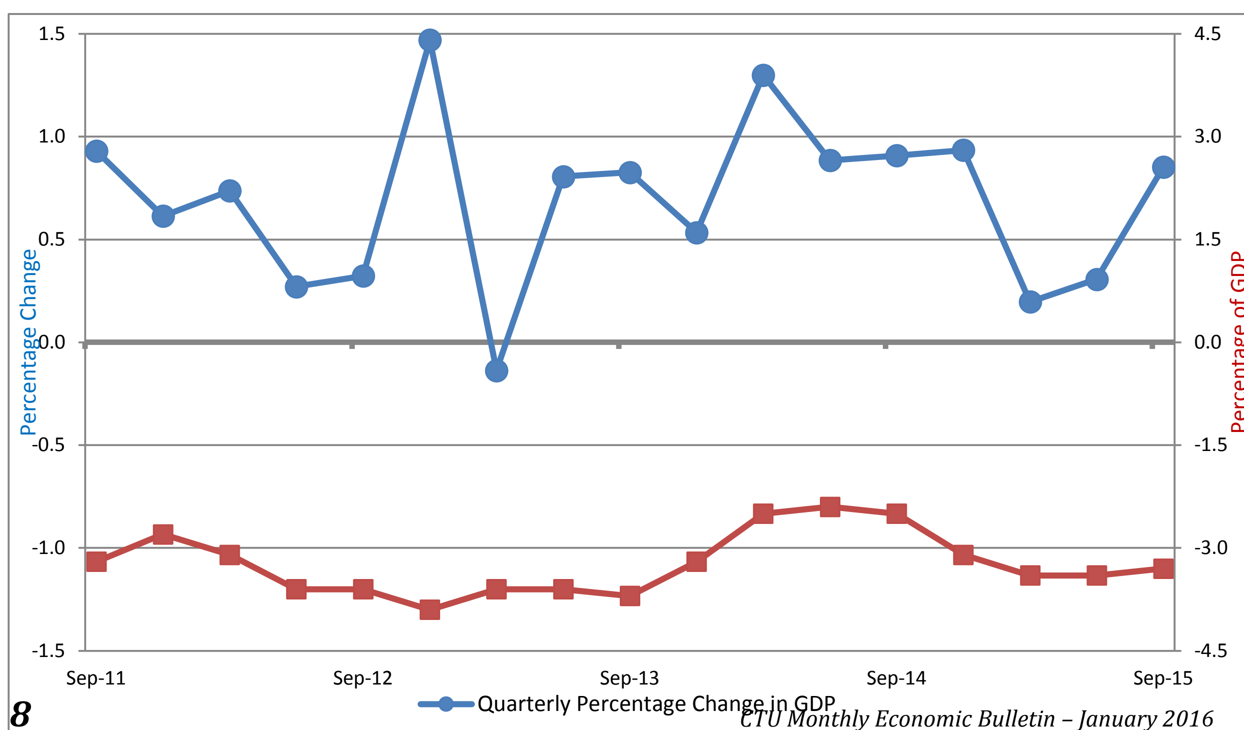
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER forecast was released on 11 December 2015.

Annual Percentage Change (March Year)	**2015-16**	**2016-17**	**2017-18**	**2018-19**
GDP	2.2	2.5	2.7	2.3
CPI	1.3	1.9	2.0	1.9
Private Sector average wage	2.9	2.7	2.8	2.8
Employment	1.5	1.8	1.8	1.6
Unemployment rate	6.1	6.0	5.8	5.6

Economy



- ★ Growth in New Zealand's economy was strong in the September 2015 quarter, with Gross Domestic Product rising by 0.9 percent, compared to weak quarterly increases of 0.3 percent in June and 0.2 percent in March. It was mainly due to strong growth in Manufacturing activity (up 2.8 percent, all sectors rising except Textile, leather, clothing and footwear manufacturing, Wood and paper products manufacturing, and Non-metallic mineral product manufacturing), and Professional, scientific, technical, administration, and support (up 2.0 percent). There was also strong growth in Wholesale trade (up 2.2 percent), Retail trade and accommodation (up 1.6 percent), and Transport, postal, and warehousing (up 2.6 percent). Output fell in Agriculture (down 1.5 percent), Forestry and logging (down 1.9 percent), Electricity, gas, water, and waste services (down 0.7 percent), Construction (down 2.9 percent), Information media and telecommunications (down 1.4 percent), and Arts, recreation and other services (down 0.7 percent). Growth for the year ended September 2015 was 2.9 percent. However GDP is barely keeping up with the rapidly growing population: GDP per person grew only 0.4 percent in the September quarter, having shrunk by 0.1 percent in the June quarter and 0.3 percent in the March quarter. Worse, real gross national disposable income per capita, which takes into account the income that goes overseas in interest and dividends to overseas investors and the falling prices for some of our main exports, fell 0.2 percent in the September quarter having risen 0.4 percent and 0.5 percent in the two previous quarters. Growth in GDP per capita is flat lining at a level around the lowest it was during the 2000s before the Global Financial Crisis hit, separating from GDP growth due to the strong population growth driven by high net immigration. Output per hour worked in the economy grew only 0.8 percent in the year to September, indicating weak productivity growth.

- ★ New Zealand recorded a Current Account deficit of $1.8 billion for the September 2015 quarter in seasonally adjusted terms ($4.7 billion actual), compared to a $2.1 billion deficit in the June quarter. There was another deficit in the goods trade ($562 million, seasonally adjusted, following a $639 million deficit in the June quarter) and a surplus of $451 million ($282 million in June) in goods and services, while the deficit on primary income (mainly payments to overseas investors) stayed steady at $2.2 billion compared to $2.2 billion in June. For the year to September 2015, the current account deficit was $8.1 billion or 3.3 percent of GDP compared to a $8.3 billion deficit in the year to June (3.4 percent of GDP). The deficit on investment income was $9.1 billion.

- ★ The country's Net International Liabilities were $151.0 billion at the end of September 2015 (61.9 percent of GDP) up from $148.0 billion (61.3 percent of GDP) at the end of June, but similar to the $151.4 billion (63.8 percent of GDP) in September 2014. The rise in net liabilities in the quarter was largely due to rises in the net market valuation of assets and liabilities and net financial derivative valuation changes, partly offset by a net financial in flow (outflows of liabilities exceeded outflows of assets) and other valuation changes. There was $2.3 billion net inflow of investment. Without the market value changes, the net liabilities would have been $145.7 billion. Assets rose in value from $233.1 billion to $234.2 billion mainly because of exchange rate and financial derivative valuation changes ($7.8 billion) against financial outflows of $4.2 billion and market price changes of $4.0 billion. Liabilities rose from $381.1 billion to $385.2 billion with financial outflows accounting for $6.6 billion negates by net valuation changes of $10.6 billion. New Zealand's international debt was $289.3 billion (118.7 percent of GDP), of which 29.4 percent is due within 12 months, compared to $146.8 billion in financial assets (other than shares; 60.2 percent of GDP), leaving a net debt of $142.5 billion (58.4 percent of GDP). Of the net debt, $9.6 billion was owed by the government including the Reserve Bank (equivalent to 3.9 percent of GDP and up from $6.6

billion in June) and $103.5 billion by the banks (42.4 percent of GDP), which owed $60.6 billion to related parties. Total insurance claims owed by overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 30 September 2015, $17.1 billion of these claims had been settled, leaving $3.0 billion outstanding.

- ★ Overseas Merchandise Trade for the month of December saw exports of goods rise 0.6 percent from the same month last year while imports fell 2.6 percent. This created a trade deficit for the month of $53 million or 1.2 percent of exports. In seasonally adjusted terms, exports fell 2.6 percent or $106.7 million over the month (compared to a 2.7 percent rise the previous month) led by falls in Dairy (down 0.2 percent or $2.1 million), Meat (down 10.2 percent or $65.8 million) and Fruit (down 18.7 percent or $35.5 million) but offset by rises Logs, wood and wood articles (up 25.1 percent or $69.6 million), Crude oil (up 309.3 percent or $63.4 million, not seasonally adjusted), Seafood (up 13.4 percent or $143 million), Aluminium and aluminium articles (up 34.7 percent or $97 million, not seasonally adjusted), and Wine (up 12.9 percent or $147 million). Seasonally adjusted imports fell 8.4 percent or $392 million over the previous month, creating a trade deficit of $253 million compared to a $537 million deficit in the previous month. Imports rose in Petroleum and products (up 34.3 percent or $104.6 million), Plastic and plastic articles (up 5.6 percent or $10.2 million) and Optical, medical and measuring equipment (up 1.0 percent or $1.3 million), but fell in Mechanical machinery and equipment (down 2.4 percent or $15.3 million), Electrical machinery and equipment (down 1.9 percent or $7.1 million), and Textiles and textile articles (down 7.8 percent or $16.4 million). Our top six export destinations accounted for 59.0 percent of our exports in the year (of which China accounts for 17.6 percent and Australia 17.0 percent), compared to 59.3 percent in the previous year (China 19.9 percent, Australia 17.5 percent). China is easily top source of imports accounting for $10,271 million of imports in the year compared to Australia at number two with $6,234 million and the trade balance with China has moved from a $1,307 million surplus in the 2014 year to a deficit of $1,658 million in the 2015 year, a turnaround of $2.9 billion. Imports from China rose 18.3 percent in the year, and fell 0.1 percent from Australia. In the month, imports from China rose 6.5 percent while imports from Australia fell 3.1 percent compared to the same month in the previous year.

- ★ The Performance of Manufacturing Index[1] for December 2015 was 56.7, a rise from 54.9 in the previous month. The employment sub-index was at 53.0, a fall from 53.8 in the previous month.

- ★ The Performance of Services Index[1] for December 2015 was 58.9, a fall from 59.8 in the previous month. The employment sub-index fell to 53.6 from 55.1 in the previous month.

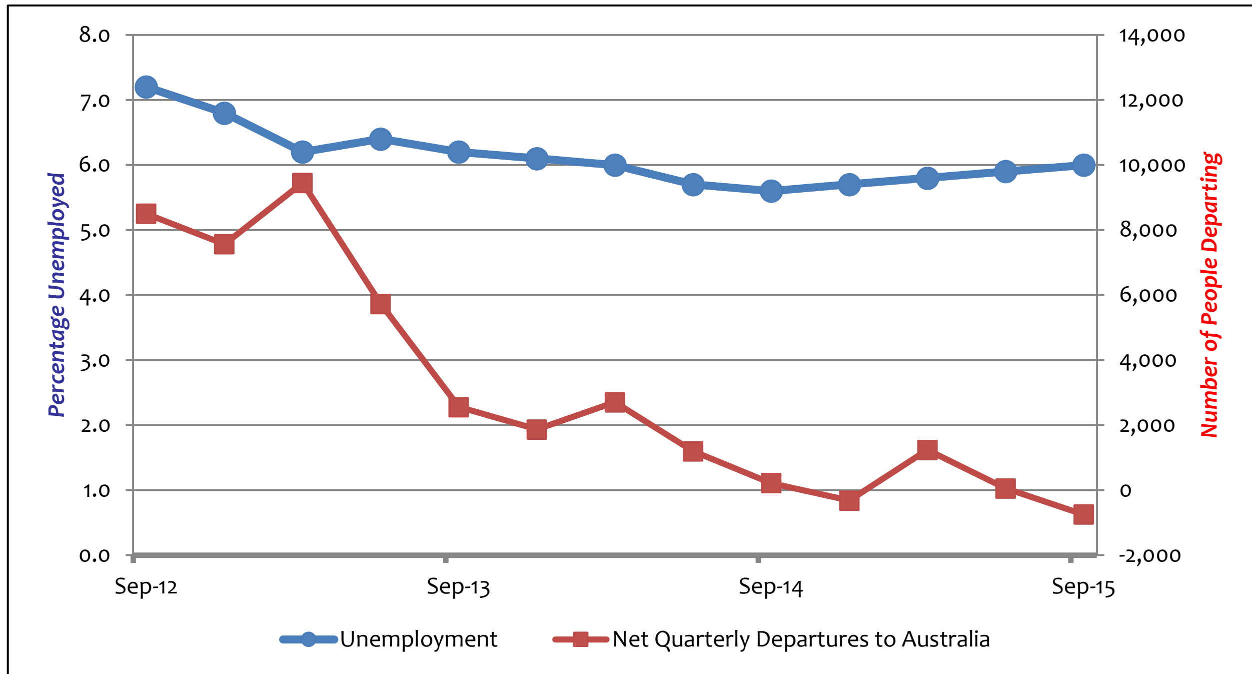
- ○ The Retail Trade Survey for the three months to September 2015 showed retail sales rose 5.7 percent by volume and 4.8 percent by value compared with the September 2014 quarter. They rose 1.6 percent by volume and 1.4 percent by value in the quarter, seasonally adjusted. By value, the largest positive contributors to the increase in the quarter were Non-store and commission retailing (which includes internet purchases) which was up 7.4 percent, Electrical and electronic goods (up 5.4 percent) and Motor vehicles and parts (also up 5.4 percent). The largest fall was Recreational goods (down 6.1 percent). Supermarket and grocery stores, the largest single sector, rose only 0.1 percent by value and 0.7 percent by volume.

- ★ On 28 January 2016 the Reserve Bank left the Official Cash Rate (OCR) unchanged at 2.5 percent, having reduced it from 2.75 percent to 2.5 percent on 10 December, but signalled that there could

be further reductions. The Governor's statement noted increased uncertainty about the strength of the global economy, particularly China and other emerging markets. Commodity prices, including for oil are weak, international inflation remains low and financial market volatility has increased. Though the domestic economy was weaker during the first half of 2015, it was expected to strengthen in 2016 due to strong net immigration, tourism and construction. A further lowering of the exchange rate was appropriate due to low export prices. House price inflation remained a financial stability risk and it was too soon to tell if it was moderating in Auckland but was growing in other regions. There are therefore many risks in the economic outlook. Though "headline" CPI inflation remained low, "core" inflation which excludes temporary price movements was, he said, around 1.6 percent and so in the target range. This suggests the Reserve Bank would hold interest rates if it could. However given "headline" inflation is still well below the target range, further reductions in the OCR may be required over the coming year. The next OCR review will be announced on 10 March 2016 and will include a Monetary Policy Statement.

★ According to REINZ, the national median house price rose $15,000 or 3.3 percent to $465,000 in December 2015 compared to a year before and up 1.2 percent on the previous month. The Auckland median price rose 13.6 percent or $92,000 over the year, from $678,000 to $770,000 and up $5,000 or 0.7 percent on the previous month. Excluding Auckland the national median price was at a record $379,000, up 8.0 percent compared to a year before and up 1.1 percent compared to the previous month. There were 25 or 0.8 percent fewer sales under $400,000 compared to the same month a year ago taking the number to 2,931, a rise of 126 (20.0 percent) to 755 in the $1 million plus range, and 183 more (11.6 percent) to 1,760 in the $600,000 to $999,999 range. Sales under $400,000 accounted for 40.1 percent of sales in December 2015 but 41.8 percent in the same month a year before.

Employment



- According to the Household Labour Force Survey the unemployment rate in the September 2015 quarter was 6.0 percent or 151,000 people, compared to 5.9 percent in June(148,000 people), seasonally adjusted. It has risen every quarter since September 2014. It is also 6.0 percent actual (not seasonally adjusted) or 148,800 people, up 14,300 from 134,500 or 5.5 percent a year before. Including the unemployed, there were 269,600 people jobless, up 40,100 from 229,500 a year before, and there were 87,200 part-timers who wanted more work, down 5,100 from a year before. Seasonally adjusted female unemployment at 6.6 percent was considerably higher than for men (5.6 percent), though female unemployment was almost static (from 6.7 percent in the June quarter) while males' rose from 5.2 percent. Māori unemployment rose from 12.4 percent in September 2014 to 12.9 percent, and Pacific people's unemployment rose from 12.0 percent to 13.1 percent over the year. The labour force participation rate at 68.6 percent is down from 69.3 percent in June and 68.8 percent a year before. There are 46,000 unemployed people who have been out of work for more than 6 months (up from 41,800 a year before), and they are 30.9 percent of the unemployed compared to 31.1 percent a year before. Those out of work for more than a year is at 11.5 percent of the unemployed compared to 12.9 percent a year before. Compared to OECD unemployment rates, New Zealand is 15th lowest (out of 34 countries), worsening from 12th equal in June.
- In the North Island, only Taranaki (5.1 percent) has unemployment below the 6.0 percent average for the country (not seasonally adjusted), and Northland, with 8.2 percent unemployment (down from 8.7 percent a year before), Gisborne/Hawkes Bay with 7.9 percent (7.1 percent a year before), and Manawatu-Whanganui with 7.0 percent (7.0 percent a year before) are particularly hard hit. Taranaki's unemployment fell sharply from 7.3 percent unemployment in the previous quarter though still up from 4.6 percent a year ago. Auckland's unemployment rate was 6.2 percent (compared to 6.1 percent a year before). The South Island looks considerably better, though Tasman/Nelson/Marlborough/West Coast at 5.7 percent is considerably higher than the 3.6

percent of a year before. Canterbury at 3.9 percent, Otago at 4.2 percent and Southland at 5.6 percent, are all higher than a year ago. The unemployment rate outside Canterbury is 6.3 percent.

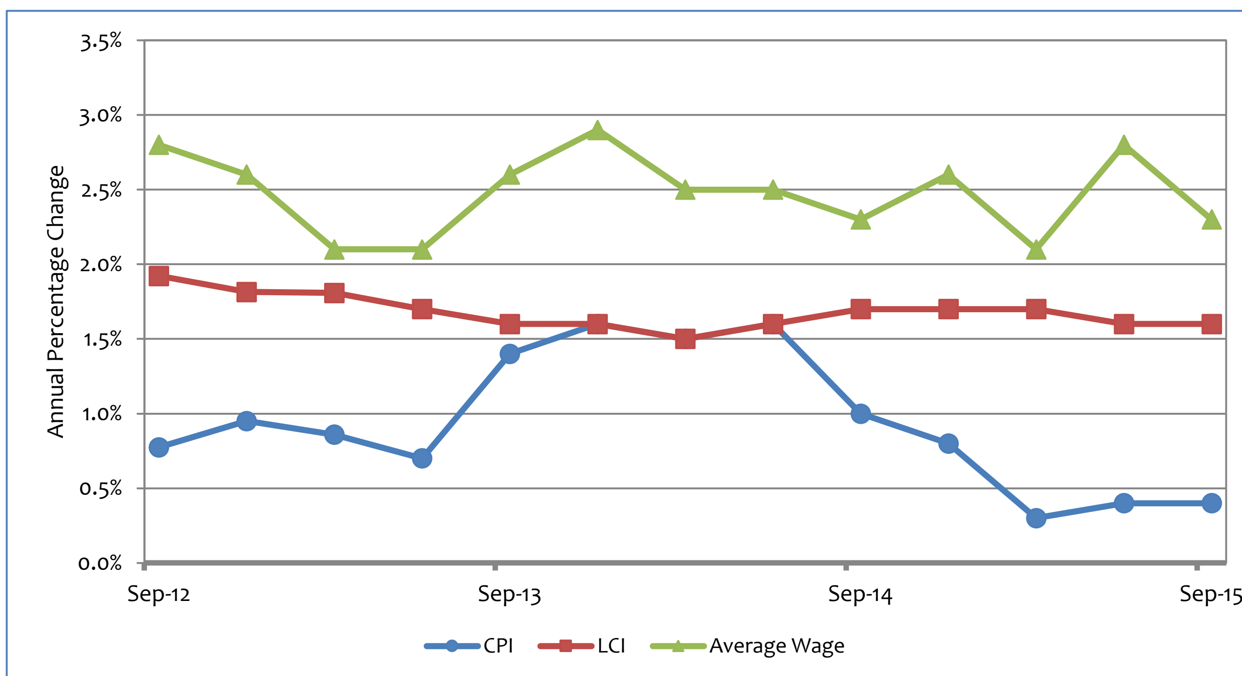
- By industry, over the year almost two-thirds of the increase in employment came from Construction (62.5 percent or 20,500 workers out of a 32,800 increase), followed by Retail trade, and accommodation, and food service (43.6 percent or 14,300 people), Health care and social assistance (25.9 percent or 8,500 people), Manufacturing (24.1 percent or 7,900 people) and Education and training (23.8 percent or 7,800 people). However this was offset by falls led by Public safety and administration (down 6,800 workers) and Wholesale trade (down 5,300 workers).
- Youth unemployment for 15-19 years was 21.5 percent, up from 20.1 percent in June and 19.6 percent a year before; for 20-24 year olds it was 12.0 percent, up from 11.0 percent in June and 10.7 percent a year before, all in seasonally adjusted terms. The not in employment, education, or training (NEET) rate for 15-19 year olds was 6.7 percent, down from 7.6 percent in June and 7.0 percent a year before while for 20-24 year olds it was 15.0 percent, down from 15.2 percent in June and 15.1 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (16.5 percent) than those not in education (15.4 percent). There were 72,000 people aged 15-24 years who were not in employment, education, or training (NEET).

★ The Ministry of Social Development reports that at the end of December 2015 there were 122,927 working age people on the Jobseeker benefit, a fall of 1,704 from a year before but a rise of 2,026 from 120,901 in September 2015 (the third quarterly rise). At December 2015, 67,670 were classified as 'Work Ready', and 55,257 were classified as 'Health Condition or Disability'. A total of 301,349 were on 'main' benefits, 7,796 fewer than a year before and 14,182 more than September 2015. It was 31,617 more than in December 2007. Of 41,059 benefits cancelled during the three months to December, 19,190 or 46.7 percent obtained work, 14.7 percent transferred to another benefit and 1.7 percent became full time students.

★ Job Vacancies Online for December showed the number of job vacancies rose by 1.4 percent in the month and rose 6.8 percent over the same month a year previously in seasonally adjusted terms. Over the year, vacancies in Auckland rose 10.4 percent, Wellington 8.5 percent, rest of the North Island 3.6 percent, South Island other than Canterbury 12.5 percent, while Canterbury fell 5.6 percent. By industry, the greatest annual increase was in Hospitality and Tourism which rose 15.4 percent and Accounting, HR, legal and administration which rose 10.8 percent, while at the other end of the scale, Information Technology fell 17.9 percent. By occupation, the greatest rise was in Clerical and Administration (up 18.4 percent over the year) followed by Labourers (up 17.1 percent) while the lowest was for Professionals (down 0.4 percent).

★ International Travel and Migration data showed 10,600 permanent and long-term arrivals to New Zealand in November 2015 and 4,340 departures in seasonally adjusted terms, a record net gain of 6,260. There was an actual net gain of 63,659 migrants in the year to November. Net migration to Australia in the year to November was 371 arrivals, with 24,711 departures and 25,082 arrivals. However there was still a loss of 4,899 New Zealand citizens. For the month of November, there was a seasonally adjusted net gain from Australia of 240 compared to a loss of 90 a year before. In November, 11.9 percent of the arrivals had residence visas, 17.5 percent student visas, 38.1 percent work visas, and 4.8 percent visitors. A further 27.3 percent were New Zealand or Australian citizens.

Wages and prices

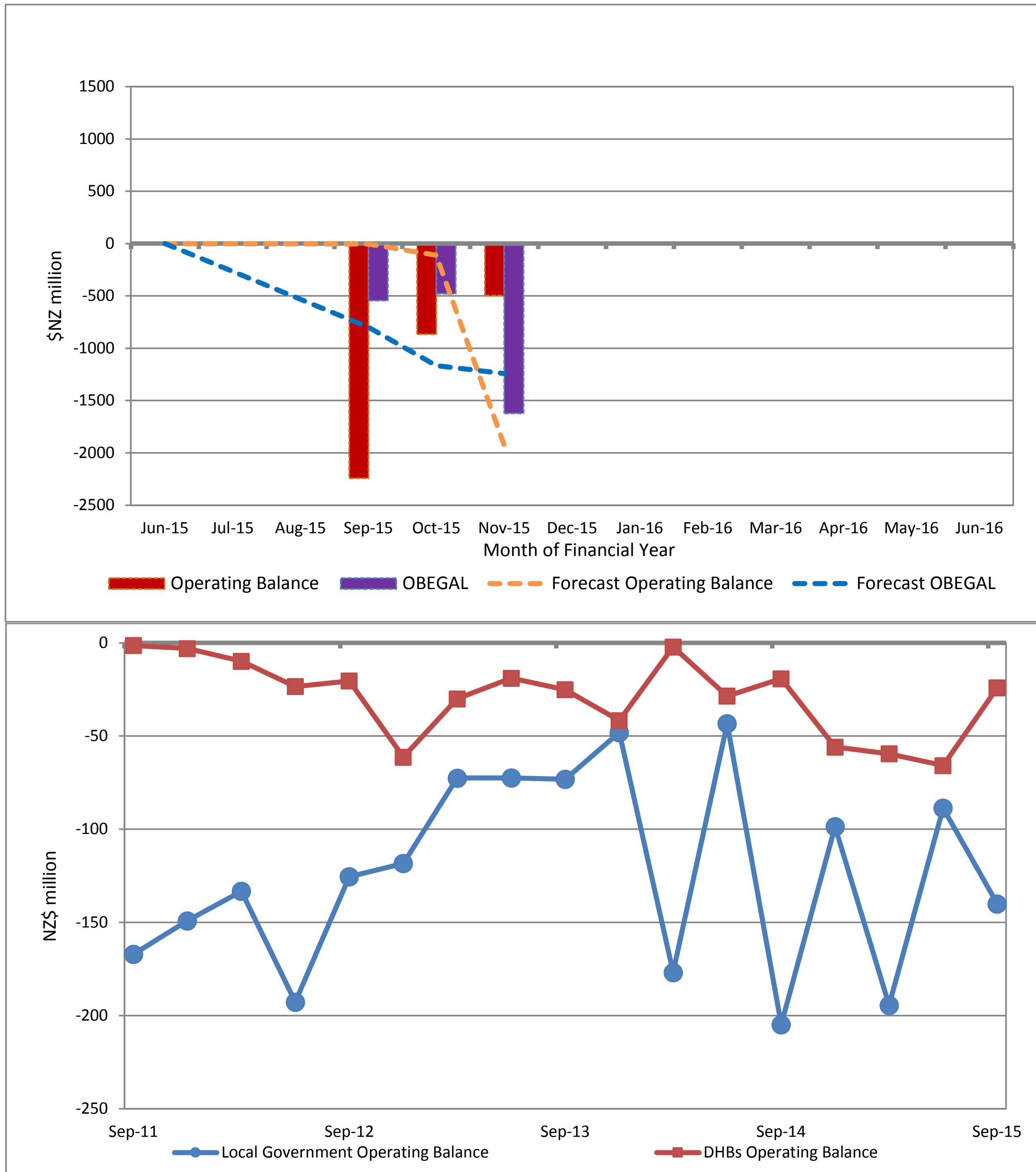


- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to September 2015. The LCI increased 1.6 percent in the year to September, ahead of the 0.4 percent increase in the CPI. It increased 0.3 percent in the public sector and 0.5 percent in the private sector in the three months to June. Over the year it rose 1.2 percent in the public sector and 1.7 percent in the private sector. During the year, 45 percent of jobs surveyed did not receive a pay rise, and 47 percent did not in the private sector. For the 55 percent of those surveyed who received an increase in their salary or wage rate during the year, the median increase was 2.5 percent and the average increase was 3.1 percent. For those jobs that received increases, the median increase in the public sector was 2.0 percent and in the private sector 2.5 percent; the average increase in the public sector was 2.2 percent and in the private sector 3.3 percent. We estimate that jobs on collective employment agreements were 2.2 times as likely to get a pay rise as those who were not, and are more likely to get a pay rise of any size ranging from less than 2 percent to more than 5 percent. In the construction industry, wage rates in Canterbury are now rising more slowly than in the rest of the country: 0.3 percent in the quarter in Canterbury compared to 0.4 percent in the rest of the country; and over the year to September, 2.0 percent in Canterbury compared to 2.1 percent elsewhere. However for those getting a rise, there is a small advantage in Canterbury: their wage rates rose 4.2 percent compared to 4.0 percent elsewhere.
- The Quarterly Employment Survey for the three months to September 2015 found the average hourly wage for ordinary-time work was $29.29, up 1.0 percent on the previous quarter and up 2.3 percent over the year. The average ordinary-time wage was $27.38 in the private sector (up 0.9 percent in the quarter and up 2.7 percent in the year) and $36.37 in the public sector (up 1.4 percent in the quarter and up 2.0 percent in the year). Female workers (at $27.07) earned 13.2 percent less than male workers (at $31.18) for ordinary time hourly earnings.

- ★ The Consumer Price Index *fell* 0.5 percent in the December 2015 quarter compared with the September quarter, and increased just 0.1 percent for the year to December. For the quarter, Housing and household utilities (up 0.5 percent), including Home ownership (up 1.2 percent) and rents (up 0.65 percent), Passenger transport (up 6.1 percent) and Real estate services (up 3.5 percent) were the largest upward influences. Those offsetting them were led by Food (down 2.1 percent), Alcoholic beverages and tobacco (down 1.0 percent), Transport (down 1.2 percent, despite the rise in Passenger transport, mainly due to a 7.0 percent fall in the price of petrol and 8.2 percent in other vehicle fuels and lubricants), Communications (down 0.8 percent), and Personal care (down 0.8 percent). Inflation in Canterbury for the year was negative 0.3 percent, the third time it has been below the national average since June 2011. It was *negative* 0.3 percent in Wellington and negative 0.2 percent in the rest of the South Island. In Auckland it was 0.5 percent and 0.1 percent in the North Island other than Auckland and Wellington. Housing costs rose at the average rate of 2.8 percent in Canterbury for the year, second only to Auckland, which rose 3.9 percent, compared to 1.6 to 2.4 percent elsewhere. In seasonally adjusted terms, the CPI fell 0.2 percent from September, Food fell 0.5 percent, Clothing and footwear fell 0.1 percent, Housing and household utilities rose 0.8 percent, Communications fell 0.8 percent, Recreation and culture fell 0.8 percent, and Education rose 0.7 percent.

- ★ The Food Price Index fell by 0.8 percent in the month of December 2015 (falling 0.5 percent in seasonally adjusted terms). Food prices fell 1.3 percent in the year to December 2015. Compared with November, fruit and vegetable prices rose 1.5 percent (but rose 1.2 percent seasonally adjusted); meat, poultry, and fish prices fell 2.7 percent; grocery food prices fell 0.6 percent (down 0.3 percent seasonally adjusted); non-alcoholic beverages fell 3.4; and restaurant meals and ready-to-eat food prices rose 0.3 percent.

Public Sector



★ According to Treasury's Financial Statements of the Government of New Zealand for the five months ended 30 November 2015, core Crown tax revenue was $212 million or 0.8 percent lower than forecast in the 2015 Half Year Economic and Fiscal Update (HYEFU). Corporate tax was $167 million or 5.0 percent below forecast and PAYE was 1.0 percent ($110 million) below forecast but may reverse out in coming months. Core Crown expenses were on target. The Operating Balance before Gains and Losses (OBEGAL) was a $1.6 billion deficit, $383 million worse than the $1.2 billion deficit forecast, mainly due to the lower tax revenue than forecast, and $180 million lower interest income. The Operating Balance was a $497 million deficit, $1.4 billion better than expected, helped

by higher than expected actuarial gains of $785 million on the ACC liability resulting from a decrease in the future inflation assumption. There were also gains on financial instruments held by the New Zealand Superannuation Fund ($686 million) and ACC ($586 million). Net debt at 26.0 percent of GDP ($63.5 billion) was $76 million worse than the $63.4 billion forecast. Gross debt at $86.7 billion was $604 million worse than forecast.

★ District Health Boards recorded combined deficits of $42.6 million for the four months to October 2015. This is $3.2 million worse than their plans. The Northern region was $0.5 million behind plan with a deficit of $2.6 million and two of the four DHBs in surplus, the Midland region was $2.4 million ahead of plan with a combined deficit of $5.1 million and all DHBs in deficit, Central region was $6.7 million behind plan and all DHBs in deficit including Capital and Coast at $7.1 million, for a total $16.2 million, and the Southern Region was $1.7 million ahead of plan with a $18.8 million deficit and three of the five DHBs in deficit including Canterbury at $10.1 million and Southern at $9.75 million. The DHB furthest ahead of plan was Southern by $3.5 million, and MidCentral was furthest behind, by $3.3 million. The Funder arms were in surplus by $0.2 million, and Provider arms in deficit by $43.1 million. Audited results for the year to June 2015 showed DHBs in deficit by $65.8 million with the Funder arms in surplus by $168.0 million and the Provider arms in deficit by $232.8 million.

★ Local Government recorded a 3.7 percent ($83.2 million) fall in operating income and a 1.4 percent rise in operating expenditure ($31.9 million) including no change in employee costs for the September 2015 quarter compared to June 2015. This resulted in an operating deficit of $140.0 million in the September quarter, compared with a deficit of $88.6 million in the June quarter, and deficits in all the quarters back to March 2008 with the exception of June 2010, all in seasonally adjusted terms. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

Notes

1 For the Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) a figure under 50 shows the sector is contracting; above 50 shows that it is growing. Previous month's figures are often revised and may differ from those published in a previous Bulletin.

This bulletin is available online at http://www.union.org.nz/economicbulletin175.

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