



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

**Submission of the
New Zealand Council of Trade Unions
Te Kauae Kaimahi**

to

Statistics New Zealand

on the

**Public consultation on CPI Advisory Committee
2013 recommendations**

**P O Box 6645
Wellington
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1. Introduction

- 1.1. This submission is made on behalf of the 37 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With over 330,000 members, the CTU is one of the largest democratic organisations in New Zealand.
- 1.2. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.
- 1.3. We appreciate the opportunity to comment on the issues arising from the recommendations of the 2013 CPI Advisory Committee, of which our Policy Director and Economist, Bill Rosenberg, was a member. Many of the matters are of considerable importance in measuring and monitoring living standards through real wages and incomes. The CPI is a crucial index in wage and salary bargaining.
- 1.4. Many of our affiliates and their members have been concerned that that the standard CPI does not always appear to reflect actual experience, especially for lower income families. The only partial inclusion of housing (including mortgage) costs is of concern.
- 1.5. We therefore welcome several of the proposals. Our specific responses to your questions are below

2. Monthly CPI

a. What priority do you give a monthly CPI, relative to other potential enhancements to the Official Statistics System?

- 2.1. We would rate the priority as very low. Quarterly releases substantially meet our needs.

2.2. Our need for mid-quarter values is probably greater for *forecast* inflation, which of course would not be met by Statistics New Zealand's statistics, and is so subject to forecasting error that (say) monthly values would carry little greater information than interpolated estimates from quarterly values.

b. Do you think New Zealand needs a monthly CPI? If so, what do you think the benefits of a monthly CPI would be? Can these be quantified?

c. Would the benefits of a monthly CPI outweigh the costs?

d. What are your quality requirements for a monthly CPI?

e. Would a 'spread' monthly CPI meet your quality needs? If not, what changes would you like to see made to the methodology to meet your quality needs?

2.3. The only benefit we have heard would be to allow its use in adjusting relatively fast changing and frequently recorded measures which are mainly financial statistics such as exchange rates. We don't believe there is significant benefit in this given New Zealand's low and slowly moving inflation rates over the past two decades and are doubtful that the benefits would outweigh the additional costs. If the costs were reduced by compromises such as a 'spread' monthly CPI, there is a risk that the credibility of the monthly adjustments would be lower, which could rebound onto the quarterly measure even if not justified.

2.4. Monthly values could perhaps also allow the monetary authorities to anticipate changes in CPI inflation sooner, allowing them to adjust their policies more quickly. However, given the relatively slow changes in inflation and that the most difficult part of their work is in anticipating inflationary movements several quarters (or more) in the future, it is hard to see that policy would be significantly improved. The costs and benefits also depend on the value and credibility placed on monetary policy in improving living standards.

2.5. We agree with the Advisory Committee that if a monthly CPI is adopted, it should be resourced through additional funding rather than by reprioritising existing official statistics.

3. Sample of regional pricing centres

a. How many regional pricing centres do you consider necessary to maintain the quality and credibility of the CPI?

b. Which pricing centres do you think should be removed from the sample? Which should be retained, and why?

3.1. We do not have a view as to the precise number of regional pricing centres required per se. We appreciate that while savings made would enable new statistics to be published, we consider the primary consideration should be that the loss of any of the regional pricing centres should not compromise the reliability and accuracy of new statistics such as population statistics which require a sufficient representation of (for example) income groups and ethnicities (especially Māori), and for spatial indexes.

3.2. Differences in quarterly changes of 0.5 to 1.5 percentage points (quoted in the consultation paper) are at the point of practical significance and caution is needed.

3.3. Table 10 of the consultation paper shows the effect of any of the options on the national CPI was to lower it. While the difference was small, there should be caution if the change introduces a systematic effect (in this case of lowering the CPI) unless it can be adjusted for in some way.

3.4. One of the lessons learned from the Canterbury earthquakes is that even if there is not great regional variation in New Zealand in normal times, it is unpredictable when greater information is needed on a regional basis. Maintaining a reasonable regional spread of centres is important, but that does not necessarily require the full current spread.

4. Price indexes for particular groups of households

a. Which population subgroup indexes would be most beneficial to you?

4.1. Our first priority would be by income group – ideally by equivalised household income. Our second priority would be wage and salary earners, and then Māori and Pacific. Our primary use would be for wage and salary negotiations, but we would also use them in commentary, submissions and research, where we would also use indexes for superannuitants and beneficiaries if available. We find it difficult to give relative priorities beyond putting the income group population indexes first: they would all be useful. For example, New Zealand's levels of inequality are an increasing public and policy concern; more accurate calculation of real incomes of different population groups is therefore of growing importance.

4.2. We would also strongly encourage SNZ to regularly publish weights for population indexes, even for indexes that are not published. Then users would be able to construct a reasonable approximation themselves. The weights should be the actual weights that would be used by SNZ, not raw Household Economic Survey (HES) weights. There can be effects on population indexes down to a considerable depth in the classification of items. HES weights are currently available only to the subgroup level which is inadequate. We appreciate the quality of the weights can be a problem at lower levels, but a reasonable rule of thumb would be that they should be published if they are considered usable by SNZ.

b. Do you think the 'feasibility study' population subgroup weights are suitable for the price indexes of interest to you? If not, why not?

4.3. The Housing and Household Utilities group appears to be consistently and significantly weighted lighter than the 2013 (or 2010) HES weights. For example, for households by income decile, the 2013 HES weights are as follows:

	Household Decile										
	1	2	3	4	5	6	7	8	9	10	All
H&HU	32%	34%	30%	27%	29%	24%	22%	20%	21%	23%	25%
Interest	2%	3%	5%	6%	5%	7%	8%	8%	8%	9%	7%

By comparison your analysis shows (p.34)

	Household Quintile					
	1	2	3	4	5	All
H&HU	27%	23%	18%	17%	15%	18%
Interest	5%	5%	8%	9%	10%	8%

It is also significantly lower than the current 23.55% for Housing and Household Utilities in the standard CPI.

4.4. The fall is probably due to the exclusion of net acquisition of owner-occupied housing, and it seems counterintuitive to lower the weighting of housing, especially given that house prices are rising much more rapidly than all groups CPI and housing costs already “feel” under-represented in the CPI. This would be a significant problem with the index if it remains as proposed. The price of housing needs better representation.

4.5. Regarding the quality of the various population indexes in terms of sampling errors and sample size, we do have concerns and encourage measures to reduce the sampling errors. Increasing the size of the HES sample, as opposed to targeting and/or screening, would have benefits for other uses of the HES, and we encourage SNZ to take this path. We would not support approaches that reduce HES’s precision and usefulness for other purposes, some of which it is already inadequate for.

c. What priority do you give to developing population subgroup CPIs relative to other CPI-related initiatives? Why?

4.6. We would rank possible enhancements as follows (1 is highest priority), but with some difficulty given that improving the HES may be in fact a prerequisite for some of the new indexes. Population indexes would be directly useful in wage setting and in commentary, submissions and research. Regional-spatial indexes would also be useful for these purposes but their production on a 3-5 yearly basis would probably be sufficient, particularly if there are corresponding regional price indexes that could be used to update

them between releases. Publication of subindexes and weights would help with this.

1. producing indexes for population subgroups
2. improving the sample design and collection methods of the Household Economic Survey
3. assessing the feasibility of, and interest in, regional-spatial indexes.
4. producing seasonally adjusted analytical CPI series

d. What population subgroup definitions would meet your needs?

- 4.7. We have no strong views on the definitions for ethnic groups, superannuitants and beneficiaries.
- 4.8. For income groups we would prefer the full range of incomes rather than only low income, and five groups (or at least publication of median index) rather than four. Household incomes should be equivalised using standard methods (such as in the Ministry of Social Development's annual Household Incomes report) to enable them to be used in as many contexts as possible.
- 4.9. The proposed definition of wage and salary earners appears appropriate.

e. How frequently, and when, should the population subgroup indexes be published?

- 4.10. We support quarterly publication of the population indexes given their use in wage setting which occurs throughout the year. The exception as noted above is for regional-spatial indexes which could be less frequent as long as they have matching quarterly price indexes available.

f. How should the population subgroup indexes be branded?

- 4.11. We would prefer "Household payments price index" as it most accurately describes the index, assuming they are on a payments basis.

5. Seasonal adjustment of the CPI

a. Do you need a seasonally adjusted CPI series for analytical purposes?

5.1. We do not have a strong need, but would use it if available.

b. What priority do you give to an analytical seasonally adjusted CPI series, relative to other CPI-related initiatives? Why?

5.2. It is not a high priority, but ranks ahead of monthly CPI releases.

6. Regional-spatial price indexes

a. Do you think New Zealand needs regional-spatial price indexes?

6.1. We would use a regional-spatial index for comparing costs of living in different regions for wage setting, social advocacy and research purposes.

6.2. Indexes for the main centres would be the main elements of such indexes, But it would also be useful to have perhaps “rest of South Island” and “rest of North Island”, or a national “non-metro” or “provincial” index.

6.3. As noted above, their production on a 3-5 yearly basis would probably be sufficient, particularly if there are corresponding regional price indexes that could be used to update them between releases. Publication of subindexes and weights would help with this.

6.4. Our ranking is above (paragraph 4.6).

7. Overseas purchases in the CPI

a. In principle, should the scope and coverage of the CPI be extended to include purchases made by the reference population while overseas?

b. Would it be worthwhile in practice to extend the scope of the CPI to include purchases made by the reference population while overseas?

7.1. Yes to both questions.

7.2. Our preference would be to treat these purchases as part of the cost of taking overseas holidays. That would allow them to be separated out and avoid confusion between domestic prices and the prices in other countries for items such as food. It could also simplify data gathering. We therefore prefer Option 2 in table 20 – classify the costs separately, and price using a proxy measure. However we are attracted to the method used to estimate Household Consumption Expenditure in the national accounts (using travel debits information) rather than using for example international package holiday prices as proxies. Expenses while on holiday are not necessarily correlated with the cost of getting there and accommodation while there.