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Commentary

Was National a 'good economic manager'?

Summary

It's a crucial part of the mythology around National Party Governments that they are "good economic managers", as their new leader, Simon Bridges, is repeating. The business commentariat repeat it endlessly too. How true is this?

'Economic management' often confuses fiscal – management of the government's finances – with management of the entire economy over which the Government of the day has relatively limited influence: it cannot take credit or blame for existing trends or random events – luck. And what is 'good'? The business media have typically assumed that 'good fiscal management' is simply holding down spending, balancing the budget and reducing debt. But it is hardly good management to hold down spending if in the real world people can't find jobs or cannot afford acceptable housing or are living in poverty or can't get the health care they need. Similarly 'good economic management' is not just strong GDP growth. It is hardly good economic management if GDP is growing but the income is not fairly spread or growth is in areas that provide a poor basis for future development or creates growing environmental degradation.

I look at National's record on growth in GDP (and GDP per person), productivity, trade, employment, unemployment and joblessness, wages and salaries, inequality, poverty, housing and environmental sustainability. Even on GDP growth its record is mediocre; it has a little to be proud of in employment but less so when looking at the quality of the employment and continuing levels of joblessness. In the other areas there are demonstrable failures.

Its management of government finances started well in its handling of the Global Financial Crisis: using debt rather than austerity reduced the social and economic impacts. It sensibly funded the Canterbury earthquake recovery partly from debt. Yet there their praiseworthy fiscal management largely ends. Their 2010 tax cuts were inappropriate in a recessionary economy with high levels of inequality and poverty. National used the crisis and a supposed excessive debt level (even at its peak, still much lower than most countries in the OECD) to justify a programme of spending cuts for its entire period in office. It put off spending in a host of areas that would inevitably come home to roost on a future Government including in Health, Superannuation, Education, Housing, Poverty, Environment and Conservation.

This is not responsible fiscal management: it is turning a blind eye to the future. On this record, National cannot fairly claim to be a good economic or fiscal manager unless its definition is so narrow as to ignore the consequences of its management policies.

It's a crucial part of the mythology around National Party Governments that they are "good economic managers", as their new leader, Simon Bridges, is repeating. The economic and business commentariat repeat it endlessly too and congratulate departing leader Bill English on his economic management skills. How true is this? I can provide only a brief assessment, but here is a start.

What is "good economic management"?

Usually the answer to this important question is left for the reader to imagine. Commentators and politicians frequently confuse *fiscal* – management of the government's finances – with *economic*. Economic management is about the entire economy. The Government[1] has only limited influence over how the economy performs. That influence can be important and set directions, but a large part of economic performance lies outside the control of the Government of the day. Somehow we need to distinguish what the Government can take credit (or blame) for, from trends that were happening anyway and 'events' – luck. That will always be a judgement call.

What is 'good'? The business media have typically assumed that 'good fiscal management' is simply holding down spending, balancing the budget and reducing debt. Some give extra marks for low spending ('smaller government') but that is a straight ideological choice: there is no evidence that smaller government is better on economic criteria, and it may be worse on social and environmental criteria (depending of course what it does). But it is hardly good management to hold down spending if in the real world people can't find jobs or cannot afford acceptable housing or are living in poverty or can't get the health care they need. Balancing the budget without taking into account the wider objectives of governing is all too easy.

Similarly the business media typically assume that 'good economic management' is strong growth in GDP (Gross Domestic Product, the most readily available, but flawed, measure of economic activity). But again, it is hardly good economic management if GDP is growing but the income is not fairly spread or growth is in areas that provide a poor basis for future development or creates growing environmental degradation. GDP is well known to be a poor indicator of welfare, let alone environmental health.

So we should judge 'good' fiscal and economic management by whether the Government is dealing with economic, social and environmental problems in a way that doesn't ignore them, worsen them, or make short term fixes that simply shove them off to future Governments, and whether the economy is improving people's lives and the environment. Large deficits that increase net government debt relative to the size of the economy over an extended period are in general not sustainable, so this is not to ignore purely fiscal objectives – but they need to be weighed up alongside other objectives. The new Government says it is planning to introduce this concept of weighing fiscal and economic against social and environmental objectives into budget processes through amendments to the Public Finance Act. That's a good idea. It will be interesting to see what excuses are given by the old guard for not liking it.

The economy

I start with the economy. What is the economy? It is not just some measures of what is being produced or spent or paid (GDP). It is about the work that people do and the goods, services and income they produce. It is about the income they receive (or their employers receive) from that work and how it is distributed – fairly or unfairly. It is about whether would-be workers have jobs at all. It is about what spending power people have to buy goods and services they need or want such as housing, food,

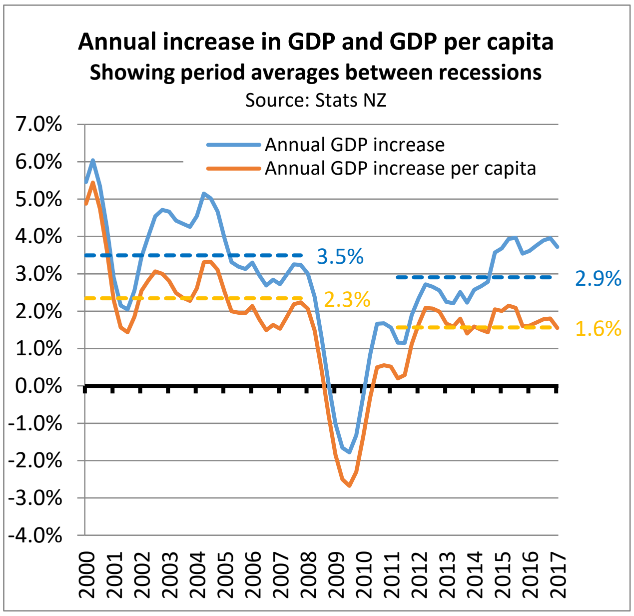
[1] I use "Government" (with a capital G) to mean the political masters in power at any one time, including Cabinet and Prime Minister, and "government" (with a small g) to mean the institutions that make up the permanent state apparatus – departments, agencies, laws, regulations, and so on.

clothing, education, entertainment and so on. What happens in the economy impacts our society and the environment and the three cannot be regarded as separate.

Unfortunately, measures for many of these are poor or dated, so I start with some of conventional measures and move on to a few other indicators.

GDP growth

GDP growth was less under National than during the 2000s: average annual GDP growth between recessions was 3.5 percent during the 2000s under the Labour-led Government and 2.9 percent under National. It liked to boast that New Zealand's GDP growth was among the highest in the OECD (the group of most of the highest income countries in the world). That was true, but that was largely because New Zealand did not have a full-on bank and financial crisis – luck, not management. National can take a little credit – I'll return to this under fiscal – but decreasingly as time went on.

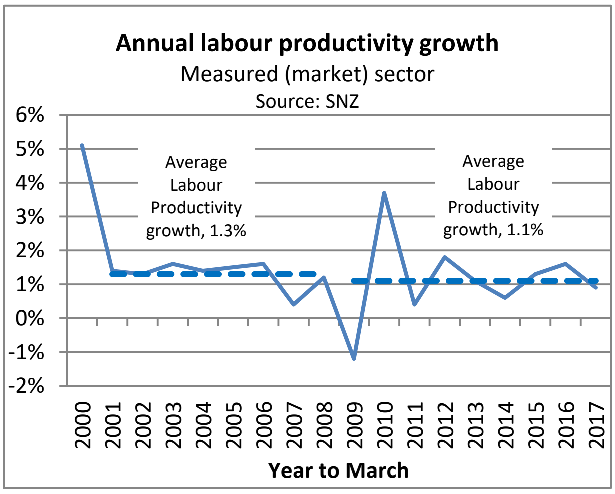


GDP per capita

But if population is growing, there are more people who need to share the GDP. Growth in GDP per person (per capita) was even further behind the 2000s, averaging 1.6 percent per year compared to 2.3 percent. Poorly managed, record net immigration, with too much of the increase in low skilled, easily exploited people on working holiday and student visas, contributed to that. New Zealand is in the middle of the OECD on per capita growth – not at the top.

Productivity

Growth in productivity – labour productivity measures what is produced in an hour worked – is a basis of future potential incomes. If it is shared with workers, the increased income can mean higher wages. New Zealand has a chronically poor productivity performance relative to the rest of the OECD. It worsened under National. Admittedly there has been an unexplained productivity slowdown in many high income countries, but the same didn't necessarily have to happen in New Zealand and National largely confined efforts to raise productivity to politically chosen inquiries by the Productivity Commission. Labour productivity fell from a mediocre average annual increase of 1.3 percent during the 2000s to 1.1 percent under National (2008-2017). Multifactor productivity continued its dismal performance, averaging a 0.6 percent annual increase compared to 0.5 percent during the 2000s.

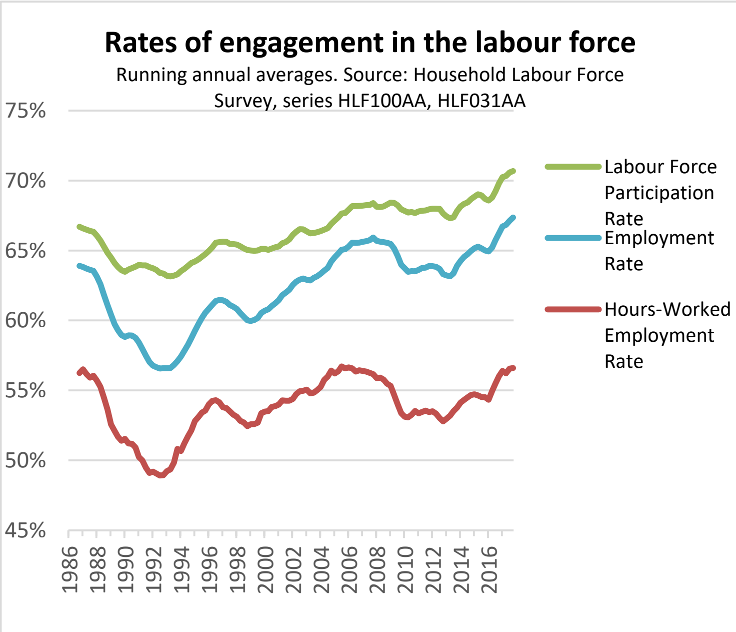


International trade

National set a target of goods and services exports rising to 40 percent of GDP. It had a target of signing commerce ('free trade') agreements with 90 percent of the world's economy, ostensibly to boost goods and services trade. Instead, exports as a proportion of GDP have fallen back to 1988 levels (26.2 percent on average in the year to September 2017; 26.0 percent in 1988. It was 30.5 percent in the year National took office, 2008). This is despite the good luck of record high terms of trade (prices received for exports relative to prices paid for imports). Just as concerning, the highest value-added export goods, "elaborately transformed" manufactured goods, fell to 13.9 percent of total goods exports in the year to September 2017, from 18.3 percent in 2008 and a peak of 22.7 percent in 2005. The focus has been on quantity, not quality.

Employment

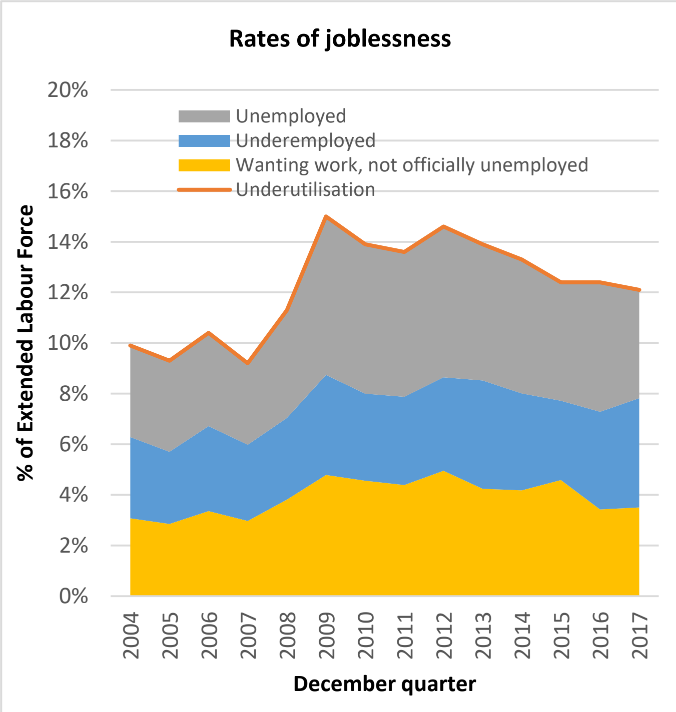
National was very proud of the increase in employment during its term. It had some reason for this: for 15 to 64 year olds, the proportion in employment (the employment rate) was 3rd highest in the OECD in December according to Statistics New Zealand, with 77.9 percent of them in work. For the usual measure – for those 15 year olds and older – the employment rate was 68.2 percent, the highest it has been since quarterly measurement began in 1986. However it is less than 2 percentage points higher than in December 2007 when it was 66.6 percent, and needs be seen in the light of persistent unemployment (see below) and low quality of work with low pay rises and increasing signs of exploitative work practices. It also reflects more people working fewer hours. An employment rate based on hours worked instead of people in work[1] shows a lower rate of employment than at peaks in 2005 and 1986. It is also important to ask: is a higher employment rate always better? If it reflects genuine choice, it may be good; if reflects hard-pressed parents getting as much paid work as possible because of low pay, it may be a sign of stress which is taking them away from quality time with their children and communities. In December 2017, 71.7 percent of couples with dependent children (and no others in the household) were working, the highest it has been since recording began in 1999, and 9 percentage points higher than during the 2000s when it averaged 62.5 percent.



[1] The numerator is total hours worked per week; the denominator used is 40 times the working age population.

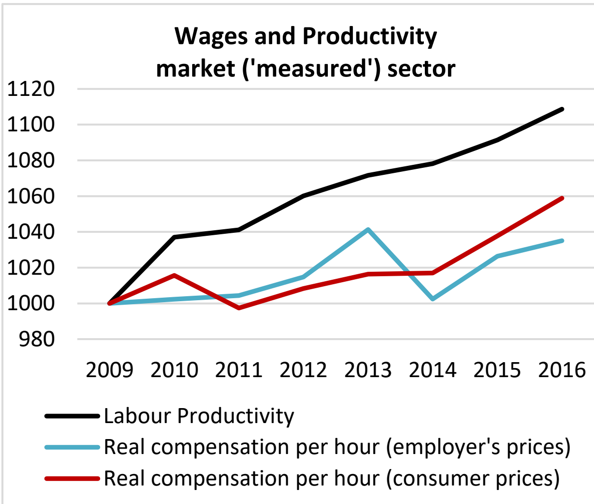
Unemployment

We have the seemingly paradoxical position of high employment rates but an unemployment rate that has fallen only very slowly and at 4.5 percent is still much higher than the 3.3 percent in December 2007. New Zealand has fallen from 4th lowest unemployment rate in the OECD for most of the period 2004 to 2007 (second lowest in December 2004) to 13th now. The OECD has commented on this:[1] "While the job displacement risk in New Zealand used to be amongst the lowest in the OECD in the mid-2000s, the impact of the economic downturn was stronger than in any other country, lifting New Zealand to the middle of the OECD ranking in 2009. Seven years later, the stock of displaced workers has not yet returned to its pre-crisis levels."(OECD, 2017) It was concerned that the government was not doing nearly enough to help 'displaced workers' find suitable work. Other National Government policies also contributed: little support for regional development where unemployment rates are highest; the high net immigration rate increasing the number of people of working age, mostly with jobs to come to; and its harsh approach to welfare beneficiaries with intensified requirements to look for and find work, which Bill English admitted might raise the unemployment rate. Though the unemployment rate is slowly falling, other measures of joblessness remain high and are falling even more slowly – there were 343,000 people looking for work or more hours of work in the December 2017 quarter.



Wages and salaries

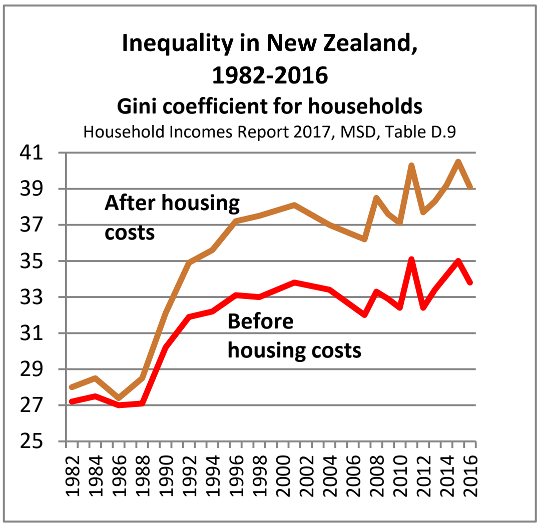
While there is now growth in real wages (that is hourly wages and salaries after adjusting for CPI inflation), that is after a substantial fall between 2009 and 2011. However, keeping wages up with inflation is a very low ambition that leads to wage and salary earners not sharing their productivity increases. Since 2009 real wages have failed to keep up with productivity rises (small though they were). It is reflected in a falling share of the country's income (see below). It is unlikely to be the result of increasing automation or technology replacing labour – the capital/labour ratio has been flat since 2010 according to Statistics New



[1] OECD. (2017). Back to work, New Zealand: improving the re-employment prospects of displaced workers. Paris, France: OECD Publishing. Retrieved from http://dx.doi.org/10.1787/9789264264434-en

Zealand. On the other hand, National steadily eroded labour rights, reducing the bargaining power of employees relative to their employers, while effects like the threat of offshoring continue to put more power in the employers' hands. Employees too often just have to take what they are given, and I estimate that only 45 percent of jobs that did not benefit from being on a collective agreement got a pay rise in the last year while 99 percent of those on a collective got a rise.

Inequality, poverty



There are signs household income inequality began rising again from a low around 2007 and is now higher than its peak around 2000, particularly after taking account of housing costs. Economic growth is going disproportionately to high income households. Research the CTU published last year showed that the low to middle 50 percent of wage and salary earners above the minimum wage have been receiving hourly pay rises at about half the rate of the top 10 percent. Some of them are compensating by working longer hours. National could have reduced inequalities and poverty by keeping benefits and Working for Families up with the average wage, but it preferred tax cuts. Its belated efforts in its final Budget were too little and too late to be convincing.

Housing

The housing situation is well known. Home ownership is increasingly unaffordable and in Auckland among the least affordable in the world, private rental housing is poor quality, frequently dangerous to its residents' health, and rents are rising much faster than incomes. Housing Corporation housing has been run down and sold off, and income-related rents made more and more difficult to qualify for. The result has been loss of housing security with multiple health, education and social effects. Only after Bill English was replaced has National acknowledged that there is a housing crisis.

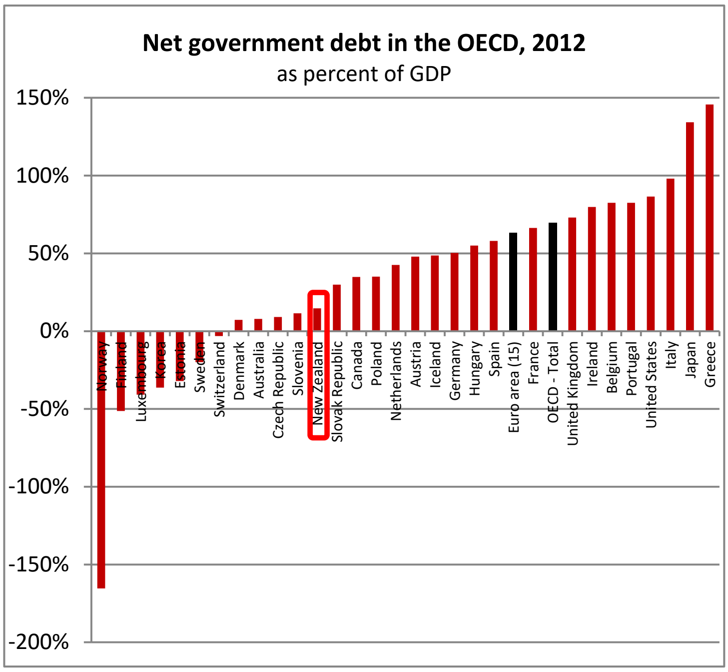
Environmental sustainability

The 2017 OECD Environmental Performance Review of New Zealand summarised its findings as: "New Zealand's growth model is approaching its environmental limits. Greenhouse gas (GHG) emissions are increasing. Pollution of freshwater is spreading over a wider area. And the country's biodiversity is under threat." These are profound. New Zealand cannot continue on its present economic track without severe damage to our environment. Efforts to combat climate change have been feeble and ineffective. Most of these require government intervention to succeed. The findings show National was not grappling seriously with these problems.

In summary, National's economic credentials are at best mixed. There are some who benefited from them – people with high incomes who benefited from tax cuts, shareholders who benefited from the increasing share of income going to corporate profits. But there are too many areas of neglect, particularly in areas where a government has influence and in areas with lasting negative consequences. Even from a narrow economic growth and productivity perspective it did not do well.

Fiscal

National initially did the right thing in response to the Global Financial Crisis which confronted it on taking office in 2008: it did not resort (as Governments in some other countries did) to austerity measures, making the social and economic impacts worse. It allowed government debt to rise to fund this. It was then confronted by the devastating Canterbury earthquakes. Once again it funded recovery partly from debt. This was the right thing to do. Net debt rose from a very low 5.4 percent of GDP in the year to June 2008, that the Labour-led Government had bequeathed it, to 19.5 percent in 2011, and peaked at 25.5 percent of GDP in 2013 according to Treasury data. Even at that peak it was very low by international standards (the graph shows the comparison in 2012; note that the OECD uses a slightly different measure of net debt but it is the relative positions that matter). Accumulation of surpluses by its predecessor had put the National Government in a very advantageous place given the financial and natural disasters.



Yet there their praiseworthy fiscal management largely ends. In 2010 they staged tax cuts which benefitted the highest income earners. While low income earners received some compensation for the rise in GST, National began a process of increasing abatements on Working for Families tax credits that severely weakened their benefits in the subsequent years. These were inappropriate policies during lingering recessionary conditions and high levels of inequality and poverty in the community. Better policies would have included addressing poverty among beneficiaries and poor wage growth. It could have stimulated the economy by encouraging house building, both private and extending Housing Corporation and local government housing stock. That would have retained skilled tradespeople (who were then flocking to Australia, which never went into recession helped by clever fiscal policies) and headed off the extremes of the current housing crisis.

Instead National used the crisis and the supposed excessive debt level to justify a programme of spending cuts in both dollar and real terms for its entire period in office. We have annually documented the underfunding of Health, failing to keep up with rising costs, population growth and aging. In effect the system was also expected to fund Government 'initiatives' from their ever-tightening budgets. Treasury has largely confirmed this[1]. But it was only one example. In a host of areas, National put off spending in areas that would inevitably come home to roost on a future Government:

- Health – neglected mental health, gaps in primary and community health, hidden waiting lists, buildings needing replacement, growing DHB deficits, years of suppressed pay to staff.

[1] February 2017 annual report on "District Health Board Financial Performance to 2016 and 2017 Plans", p.12, available at http://www.treasury.govt.nz/publications/informationreleases/health/dhb-performance

- Superannuation – it neither reduced the cost of Superannuation, nor contributed to the New Zealand Super Fund to defray future costs. As a result it is taking an increasing proportion of a budget that National's policies shrunk as a proportion of GDP, forcing stringency in other areas.
- Education – teacher shortages, institutes of technology and polytechnics with inadequate funding bases and unclear roles, pay equity, years of suppressed pay to staff.
- Housing – huge shortages of both public and affordable private housing as described above.
- Poverty – years of unaddressed needs leading to multiple problems for the parents and children and for other public services. National's 'social investment' approach in social welfare was aimed at reducing costs to government rather than addressing citizens' needs; and in general was carefully designed extreme targeting that failed to address underlying causes such as inadequate incomes and poor housing. It guaranteed a continuing flow of new victims to target.
- Environment and Conservation – a feeble response to climate change; years of underfunding of conservation.
- Many other public services suffered from years of falling funding in real terms, from public broadcasting to labour inspectors.

Any of these can be ignored for a period – such as during a crisis. But at some point they must be addressed. National's fiscal policies, which unnecessarily prioritised tax cuts and unjustified debt reduction, have simply handed them on to the next Government and future generations. Their final Budget, which announced a further reduction in their debt target (from 20 percent of GDP in 2020 to 10-15 percent in 2025), further tax cuts, and an inadequate response to persistent poverty and inequalities, showed that this fiscally irresponsible track was to continue.

This is not responsible fiscal management: it is turning a blind eye to the future.

Conclusion

Looking at the above record, National cannot fairly claim to be a good economic or fiscal manager unless its definition is so narrow as to ignore the consequences of its management policies. Even then, its economic results were mediocre at best. Cutting spending and balancing budgets are not ends in themselves. They must be balanced with the needs of society and the needs of the planet. That is what National failed in so many areas to do.

Bill Rosenberg

Information

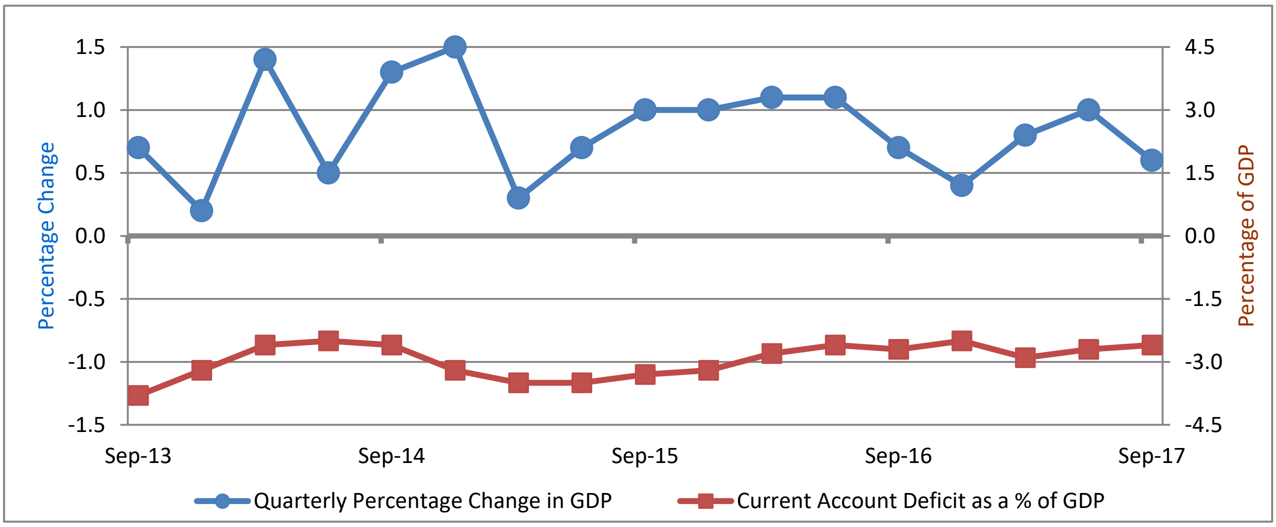
A ★ indicates information that has been updated since the last bulletin.

Forecast

- This NZIER consensus forecast was released on 11 December 2017.

Annual Percentage Change (March Year)	2017-18	2018-19	2019-20	2020-21
GDP	2.7	3.2	3.0	2.4
CPI	1.4	1.8	2.0	2.0
Private Sector average hourly wage	2.2	3.1	3.2	3.1
Employment	2.7	1.9	1.5	1.3
Unemployment rate (% of labour force)	4.6	4.5	4.5	4.5

Economy



★ Annual Productivity statistics for the year to March 2017 showed weak labour productivity growth of 0.9 percent in the latest year in the 'measured sector' (largely the commercial or market sector of the economy), but significantly revised data showed faster labour productivity growth in recent years prior to 2017. The change in 2016 was reversed from a 0.7 percent fall to a 1.6 percent rise, and an outlier at 3.7 percent growth in the year to March 2010 was up from 3.2 percent. Nevertheless, labour productivity growth averaged a relatively weak 1.1 percent between 2008 and

2017. Capital productivity grew 1.1 percent in the latest year but its growth averaged 0.0 percent over the 2008-2017 period, dragged down by sharp falls in the 2009 and 2010 years. Multifactor productivity (in theory what cannot be explained by labour and capital, such as greater skills and experience; in practice including any errors in estimates of labour and capital productivity) rose 1.0 percent in the latest year and 0.6 percent over the 2008-2017 period. The capital-labour ratio remained almost unchanged over the period 2010-2017 (that is, there was little capital deepening). Nonetheless, Real unit labour costs, the labour costs per unit of production, which are closely related to labour's share of New Zealand's income but include labour of the self-employed, fell 6.3 percent between 2009 and 2016 (latest available) in the measured sector, and 0.8 percent in the year to March 2016. For the whole economy, real unit labour costs fell 6.1 percent over the same period, and 5.2 percent over the period 2008 to 2017.

- Growth in New Zealand's measured economy in the three months to September 2017 was below Treasury and Reserve Bank forecasts, with Gross Domestic Product rising by 0.6 percent, compared to 1.0 percent in the previous quarter (revised up). Average growth for the year ended September 2017 was 3.0 percent (and 2.7 percent compared to the same quarter last year). However growth in GDP per person continues to be weak with a rapidly growing population: GDP per person rose only 0.2 percent in the September quarter (down from 0.5 percent the previous quarter), and 0.8 percent over the year, worse even than recent performance. GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.6 percent a year. Since 2012 it has averaged 1.6 percent in September years. 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 somewhat more strongly: it rose by 0.3 percent over the quarter and 2.4 percent over the year to September. Its average performance has also been lower than the 2000s.

Note that there have been major revisions of GDP estimates, largely affecting data since 2013, with significant effects in 2016 and 2017. The estimate of annual GDP growth in the year to March 2016 was raised by 1.2 percentage points (from 2.4 percent to 3.6 percent) and in the year to March 2017 by 0.8 percentage points (from 2.9 percent to 2.7 percent).

- I estimate[1] that labour productivity measured by production per hour worked in the economy was unchanged in the year to September compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It is little different in September 2017 than it was in September 2012. It fell 1.8 percent in the September quarter in seasonally adjusted terms. Statistics New Zealand's official productivity statistics for the year to March 2017 are summarised above.

- Business investment rose by 0.3 percent compared to the previous quarter though the growth compared to the same quarter last year was reasonably strong at 3.5 percent, driven mainly by construction of other than buildings, Plant, machinery and equipment, and Intangible fixed assets. Non-residential building and Transport equipment investment fell over the year. Investment in

[1] Because of the changes to the Household Labour Force Survey, there is a break in the hours-worked series in June. I estimated the increase for June 2016 using a recent Statistics New Zealand estimate that the changes in the survey created a jump in the series by 50,000 people or 2,550,000 actual hours worked per week: see Anand-Kumar, V., Penny, R., & Gordon, M. (2017). *Investigation on the impact of the 2016 redevelopment on the Household Labour Force time series.* Wellington, New Zealand: Statistics New Zealand, p.11. Available at http://on-cue.co.nz/Vinyak%20Anand-Kumar.pdf

housing rose 3.3 percent in the quarter following 0.6 percent and 1.5 percent falls in the previous two quarters. It grew only 1.4 percent over the same quarter last year. Household consumption growth weakened to 0.9 percent in the September quarter in real terms, after rising a revised 1.1 percent in the previous quarter, and rose 3.5 percent over the same quarter in the previous 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) rising 3.6 percent from the same quarter last year, and 1.3 percent in the most recent quarter.

- By industry, the largest contributors to growth in the latest quarter were Construction (up 3.6 percent), Manufacturing (up 0.7 percent), Transport, postal and warehousing (up 1.4 percent), Professional, scientific, technical, administrative and support services (up 0.9 percent), Health care and social assistance (up 2.1 percent) and Arts, recreation and other services (up 2.4 percent). There were contractions in Agriculture, forestry and mining (down 1.0 percent), Electricity, gas, water, and waste services (down 1.6 percent), Retail trade and accommodation (down 0.4 percent), and Rental, hiring and real estate services (down 0.3 percent). Compared with the same quarter last year, the biggest rises were in Health care and social assistance (up 5.8 percent), Retail trade and accommodation (up 5.5 percent), Arts, recreation and other services (up 4.2 percent), Professional, scientific, technical, administrative and support services (up 3.6 percent), and Agriculture, forestry and fishing (up 3.4 percent).

- New Zealand recorded a Current Account deficit of $1.3 billion in seasonally adjusted terms for the September 2017 quarter (but an actual deficit of $4.7 billion) following a revised $1.5 billion deficit for the previous quarter. There was near balance in goods trade (a $26 million deficit, seasonally adjusted) following a $0.4 billion deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $1.2 billion in goods and services (compared to a $0.8 billion surplus in the previous quarter) including a $1.2 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) worsened to $2.4 billion from $2.1 billion in the previous quarter (seasonal adjustment not available). For the year to September 2017, the current account deficit was $7.1 billion or 2.6 percent of GDP compared to a $7.4 billion deficit in the year to June (2.7 percent of GDP). The deficit on investment income was $8.5 billion for the year.

- The country's Net International Liabilities were $156.7 billion at the end of September 2017, up from a revised $157.2 billion at the end of the previous quarter but down from $167.9 billion a year before. The September net liabilities were equivalent to 56.3 percent of GDP, compared to a revised 57.4 percent in the previous quarter and 64.3 percent a year before. Net international liabilities would take 2.13 years of goods and services exports to pay off, down from 2.41 years a year before. However gross liabilities would take 5.45 years of goods and services exports to pay off. The fall in net liabilities over the quarter was due to a net $2.6 billion valuation increase (mainly $2.1 billion in market price valuations) offset by a $2.2 billion net outflow of investment. Without the valuation changes, the net liabilities would have been $159.3 billion. New Zealand's international debt was $287.8 billion (equivalent to 103.5 percent of GDP), of which 30.4 percent is due within 12 months, compared to $138.1 billion in financial assets (other than shares; 49.6 percent of GDP), leaving a net debt of $149.8 billion (53.8 percent of GDP). Of the net debt, $3.5 billion was owed by the government including the Reserve Bank (equivalent to 1.3 percent of GDP and down from $4.5 billion at the end of the previous quarter) and $112.8 billion by the banks (40.6 percent of GDP), which owed $153.8 billion gross.

- ★ Overseas Merchandise Trade for the month of January 2018 saw exports of goods rise in value by 9.5 percent from the same month last year (a record for a January month) while imports rose 17.1 percent. This created a trade deficit for the month of $566 million or 13.1 percent of exports, following a record surplus in December. There was a trade deficit for the year of $3.2 billion or 6.0 percent of exports, lower than the 7.0 percent deficit in the year to the same month in 2016. In seasonally adjusted terms, exports fell 14.7 percent or $779 million over the month (compared to a 14.1 percent rise the previous month) led by falls rises in Dairy products (down 11.9 percent or $150 million), Fruit (down 31.0 percent or $94 million), Aluminium and aluminium articles (down 48.1 percent or $83 million, not seasonally adjusted), and Crude oil (down 100 percent or $67 million to zero, not seasonally adjusted). Only Electrical machinery and equipment (up 3.2 percent or $3 million) and Logs, wood and wood articles (up 0.3 percent or $1 million) rose among the top ten export categories. Seasonally adjusted imports fell 0.3 percent or $13 million over the previous month, creating a trade deficit of $528 million following a $238 million surplus in the previous month. The falling imports were led by Mechanical machinery and equipment (down 13.0 percent or $104 million, not seasonally adjusted), offset by rises led by Petroleum and products (up 29.4 percent or $127 million, not seasonally adjusted), Electrical Machinery and Equipment (up 12.2 percent or $51 million), and Textiles and textile articles (up 21.1 percent or $40 million). In the year to January, 22.1 percent of New Zealand's exports went to China, 16.4 percent to Australia, 9.9 percent to the US, and 62.4 percent went to the top seven countries buying New Zealand exports. This was up from 19.7 percent going to China in the year to January 2017, and 61.4 percent going to the top seven destinations. Over the same period, 19.3 percent of New Zealand's imports came from China (compared to 19.9 percent in 2016), 12.2 percent from Australia, 10.6 percent from the US, and 63.1 percent from the top seven countries selling to New Zealand, compared to 64.5 percent a year before.

- ★ The Retail Trade Survey for the three months to December 2017 showed retail sales rose 5.4 percent by volume and 6.3 percent by value compared with the same quarter a year ago. They rose 1.7 percent by volume and 1.9 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Specialised food (up 5.5 percent), Liquor (up 4.1 percent), Food and beverage services (also up 4.1 percent), Pharmaceutical and other store-based retailing (up 4.0 percent), and Fuel (up 3.8 percent). Food retail encompassing Supermarket and grocery stores (easily the largest single category, with 21 percent of sales), Specialised food, and Food beverage services, together made up almost half of the increase for the quarter ($211 million out of the $444 million total). There were sales falls in Department stores (down 1.2 percent) and Hardware, building, and garden supplies (down 0.8 percent) with Accommodation (up 0.6 percent) also particularly weak. We noted last quarter that September was the first quarter when Statistics New Zealand collected retail trade data under a new design which uses GST data wherever possible, surveying only the larger retail businesses. This quarter they announced some major revisions to Supermarket sales for September and previous quarters. For example, they now estimate that Supermarket sales rose 5.6 percent rather than the 2.9 percent previously published.

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.

★ The Performance of Manufacturing Index for January 2018 was 55.6, a rise from 51.1 in the previous month. The employment sub-index was at 52.5, a rise from 51.5 in the previous month.

★ The Performance of Services Index for January 2018 was 55.8, a slight fall from 56.0 the previous month. The employment sub-index was 50.6, down from 55.8 in the previous month.

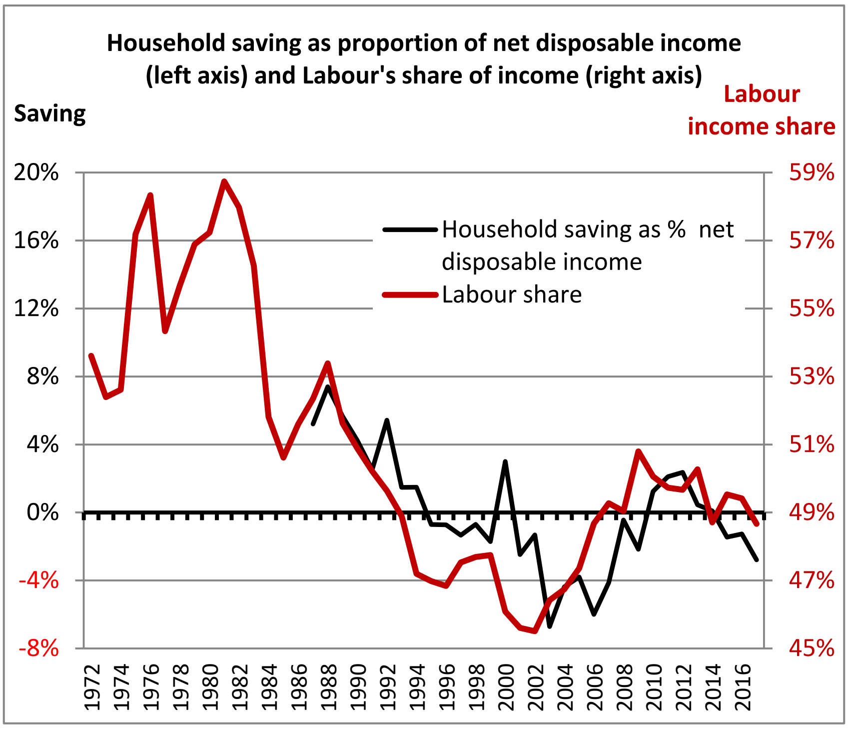
★ On 8 February 2018 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. The Bank indicated, as it has for many months, that the rate is likely to be in place for a considerable time unless there were unforeseen events: "Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain and policy may need to adjust accordingly". It continued its more relaxed view of the international situation: "Global economic growth continues to improve. While global inflation remains subdued, there are some signs of emerging pressures. Commodity prices have increased, although agricultural prices are relatively soft." It again commented on low interest rates and record high share prices, though the sharp fall in US share prices which occurred just before this statement was issued appears only as "volatility". "International bond yields have increased since November but remain relatively low. Equity markets have been strong, although volatility has increased recently. Monetary policy remains easy in the advanced economies but is gradually becoming less stimulatory." It renewed its concerns about a rising exchange rate (which had fallen following the election result) but "assumed" it would fall back. GDP growth in New Zealand was somewhat weaker in the second half of 2017 but was expected to strengthen, due in part to government spending and population growth. However "The Bank has revised its November estimates of the impact of government policies on economic activity based on Treasury's HYEFU. The net impact of these policies has been revised down in the near term. The Kiwibuild programme contributes to residential investment growth from 2019." Meanwhile "Labour market conditions continue to tighten." House prices were starting to accelerate again though credit growth was slowing. Consumer price inflation was weaker than they expected at 1.6 percent but "Non-tradable inflation is moderate but expected to increase in line with increasing capacity pressures." (Non-tradables are products not subject to international competition.) As always, they expect inflation to eventually get to their target of 2 percent. The next OCR announcement will be on 22 March 2018.

★ According to REINZ, over the year to January the national median house price rose $34,500 or 7.1 percent to $520,000 and REINZ's house price index rose 3.4 percent. (The house price index adjusts for the type of house, such as its size and land area, and seasonal price patterns.) Over the month, the median price rose 0.6 percent seasonally adjusted while the house price index rose 0.1 percent. In Auckland over the year the median price was down $10,000 or 1.2 percent at $820,000 while the house price index rose 0.1 percent. Over the month Auckland's median price fell 1.2 percent seasonally adjusted, and the house price index fell 0.6 percent. Excluding Auckland, over the year the national median price rose $34,500 to $432,500 or 8.7 percent while the house price index rose 6.6 percent. Over the month the median price excluding Auckland was up 0.6 percent on the previous month seasonally adjusted, and the house price index rose 0.7 percent. There were record median prices in Hawke's Bay (up 18.4 percent over the year to $438,000) and Otago (up 32.9 percent to $475,000). Median prices fell in 2 regions over the year (Auckland down 1.2 percent and West Coast (down 10.0 percent) and in 8 of the 14 regions over the month, seasonally adjusted.

Sales fell in all of the regions except Gisborne and Canterbury over the month, seasonally adjusted, while over the year, sales fell in five regions, averaging a rise of 2.7 percent.

- The [Household Economic Survey](#) for 2017 showed wages and salaries made up 59.6 percent of average annual household income over the year to June 2017, which had fallen from 66.8 percent in 2007. Self-employment income made up 18.1 percent. It rose sharply in 2016 from 12.0 percent of average household income in 2015 to 17.4 percent in 2016. It had been 11.7 percent in 2007. Investment income made up 4.8 percent of household income, or $3,010, but under half of households had any such income: the median was zero. New Zealand Superannuation and war pensions were 6.7 percent of household income, private superannuation 0.9 percent, other government benefits 3.2 percent, other sources of regular income 3.8 percent and irregular sources of income 3.0 percent, totalling $100,892 per household, including $97,882 in regular income. Average total income increased 0.8 percent in real terms from 2016, and regular income 1.2 percent, but average household wages and salaries fell 0.1 percent while average self-employed income rose 4.8 percent, and investment income 8.0 percent. Median household income was $76,728, including $75,412 regular income.

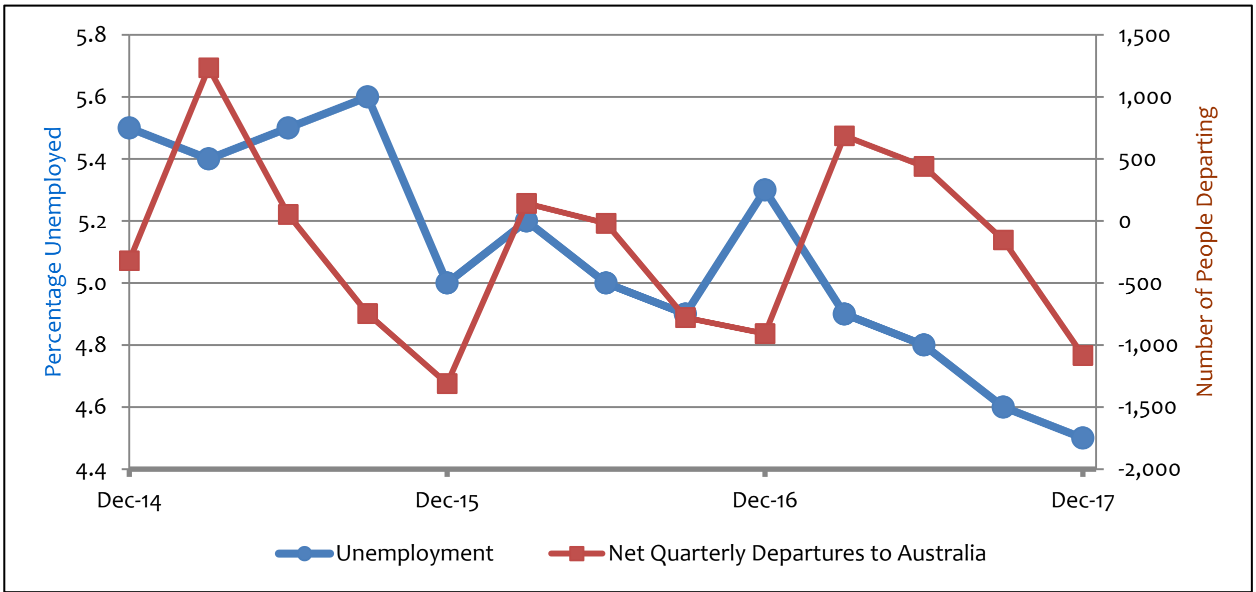
- **Wage and salary earners' share of New Zealand's income** can be calculated from the annual National Accounts Income and Expenditure figures for the year to March 2017, released in November. It showed a sharp fall in the share of the nation's income (gross domestic income) going to employees or wage and salary earners – **the labour income share**. It fell to 48.7 percent of the nation's income from 49.4 percent in the year to March 2016. It has been falling since 2009 when it was 50.8 percent. The main beneficiaries have been local corporate shareholders, though the self-employed have gained share slightly. The OECD median labour income share at the same period was 54.7 percent, Denmark had 61.2 percent, and Australia 51.7 percent (it crashed from 54.8 percent a year earlier)[1]. The labour income share is now at the lowest it has been since 2006 when it was rising. Each percentage point difference is worth $1,157 per year on average to each of New Zealand's 2,030,900 wage and salary earners employed at March 2017. The labour



[1] OECD and Denmark are calculated from the European Commission's AMECO databases (GDP (Income approach), Labour costs), last updated 9 November 2017 (https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/macro-economic-database-ameco/download-annual-data-set-macro-economic-database-ameco_en). Australia is calculated from Australia Bureau of Statistics, 5206.0 Australian National Accounts: National Income, Expenditure and Product, Table 7.

income share reached a peak in 1981 when it was a full 10 percentage points higher at 58.7 percent. If the labour income share was still 58.7 percent, each wage and salary earner would average $11,650 per year better off. The same release showed **household saving** falling deeper into the negative: expenditure outstripped disposable income by $4.1 billion in the March 2017 year, or 2.8 percent of net household disposable income. It was in the negative for all but one year between 1995 and 2009. Household saving fell by $2.3 billion while government saving increased by $3.2 billion and total national saving increased $3.4 billion.

Employment



★ According to the Household Labour Force Survey (HLFS) the **unemployment** rate in the December 2017 quarter fell to 4.5 percent or 122,000 people, compared to 4.6 percent in September (126,000 people), seasonally adjusted. If it were the 3.3 percent it was in December 2007, 32,000 more people would have jobs. The seasonally adjusted female unemployment rate fell to 5.0 percent from 5.3 percent in September but was still considerably higher than for men (4.0 percent) whose unemployment rate was unchanged. Māori unemployment fell from 11.9 percent in December 2016 to 9.0 percent in December 2017, a nine-year low, while Pacific people's unemployment fell from 9.7 percent to 7.7 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 77.9 percent for 15-64 year olds, again unchanged since September.

★ **Youth unemployment** for 15-19 year olds was 20.3 percent in December, up from 19.3 percent in September, and down a little from 20.7 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 December 2017 the unemployment rate was 24.9 percent, down from 30.7 percent a year before. For 15-19 year old Pacific Peoples it was 32.5 percent, up from 31.1 percent a year before. For 20-24 year olds, youth unemployment was 8.6 percent, down a little from 9.0 percent in September and from 9.4 percent a year before. For Māori 20-24 year olds in December 2017 the unemployment rate was 8.9 percent, a fall from 15.9 percent a year before. For 20-24 year old Pacific Peoples it was 11.9 percent, up from 11.3 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 8.5 percent, up from 7.2 percent in September but down from 9.5 percent a year before. For Māori 15-19 year olds in December 2017 the rate was 12.4 percent, down from 14.8 percent a year before and for Pacific Peoples it was 12.1 percent, down from 14.1 percent a year before. For 20-24 year olds the NEET rate was 14.8 percent, the same as in September but down from 17.1 percent a year before. For Māori 20-24 year olds in December the rate was 21.5 percent, down sharply from 28.2 percent a year before, and for Pacific Peoples it was 21.9 percent, down a little from 22.3 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (16.1 percent) than those not in education (10.7 percent). There were 80,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, up from 76,000 in September but down 10,000 from 90,000 a year before.

★ By **region**, in the North Island, unemployment rates fell compared to a year ago in all of the eight regions except Bay of Plenty (which rose slightly from 4.9 percent to 5.1 percent). Taranaki had the worst unemployment rate at 6.4 percent, while Manawatu/Whanganui had 5.7 percent (5.9 percent a year ago), Northland was at 5.6 percent (from 7.3 percent a year ago), and Gisborne/Hawke's Bay was also at 5.6 percent (8.1 percent a year ago). Auckland's unemployment rate was 4.1 percent, down from 5.1 percent a year before. The lowest North Island unemployment was in Wellington at 3.7 percent (down from 5.6 percent a year before). The South Island looked better with Tasman/Nelson/Marlborough/West Coast at 3.5 percent (from 4.1 percent a year before), Canterbury at 4.0 percent (3.7 percent a year before), Otago at 4.5 percent (4.0 percent a year before), and Southland had 3.7 percent unemployment (5.0 percent a year before).

★ There were 36,700 unemployed people in December 2017 who had been **out of work for more than 6 months** compared to 45,100 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 December brings numbers closer to pre-June 2016. This is 30.3 percent of the unemployed compared to 32.7 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 13.5 percent of the unemployed compared to 11.6 percent a year before and is the highest in a December quarter since 2001.

★ 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 December quarter there were a total of 343,000 people looking for work classed as "underutilised", or 12.1 percent of the labour force extended to include these people. Of them, 122,000 were underemployed, 122,000 were officially unemployed, and 99,000 were additional jobless people looking for work. The 12.1 percent underutilisation rate is not much more than in the previous quarter (seasonally adjusted 12.0 percent) and down on 12.4 percent a year before. It is higher for women at 15.2 percent than for men (9.4 percent).

★ The number recorded as **employed** rose by 12,000 between the September and December 2017 quarters (seasonally adjusted). It rose by 93,000 over the year. The employment rate remained at 67.8 percent over the three months. It was 62.4 percent for women and 73.4 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 71.1 percent to 71.0 percent, all in seasonally adjusted terms.

★ **By industry**, the actual rise in employment of 44,800 since the September quarter was made up of both gains and losses. The biggest gains were of 13,800 in Retail trade, and accommodation and food services, 8,600 in Professional, scientific, technical, administrative, and support services, 8,200 in Wholesale trade, and 7,800 in Construction, offset by falls led by Rental, hiring, and real estate services (down 3,900) and Public administration and safety (down 2,700). These are not seasonally adjusted. Over the year, the biggest contributor to the 92,600 additional jobs was 25,900 in Professional, scientific, technical, administrative, and support services.

★ In the December 2017 quarter, total **union membership** was estimated at 397,000, a 4.1 percent increase from 381,500 in the September quarter and up 5.1 percent from 377,900 a year before. The membership is 18.7 percent of employees compared to 18.2 percent three months before and 18.3 percent a year before. Women make up 57.8 percent of the membership compared to them being 49.4 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.9 percent compared to 15.6 percent. The increase in numbers was greater for males (up 7.2 percent over the year) than females (up 3.6 percent) so this isn't just due to the pay equity settlement. The rise was in three age groups: 15-24 (up 7.9 percent in the year, 11.0 percent in the quarter), 25-34 (up 18.4 percent in year, 11.3 percent in quarter), and 55-64 year olds (up 9.2 percent in year, 3.6 percent in quarter). The other age groups fell over the year. By industry, the rises in both numbers and union density over the year to December were led by Manufacturing (up 5,400 and density rising from 19.8 percent to 21.7 percent), Construction (up 3,400, density rising from 5.7 percent to 7.4 percent), Education and Training (up 5,700, density rising from 40.2 percent to 42.6 percent), Health Care and Social Assistance (up 7,400, density up from 41.4 percent to 43.4 percent). However numbers and density fell in a number of industries, notably Transport, Postal and Warehousing (down 1,900, density falling from 29.9 percent to 26.1 percent). There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends.

★ In the December 2017 quarter, total **collective employment agreement** coverage was estimated at 389,800 employees, which makes 18.4 percent of employees who said their employment agreement was a collective compared to 18.1 percent three months before and 19.2 percent (395,300) a year before. An estimated 67.8 percent (1,439,900) said they were on an individual agreement compared to 68.5 percent three months before and 65.9 percent a year before, and 6.6 percent or 140,600 said they had no agreement (which is illegal), compared to 6.9 percent three months before and 7.8 percent a year before. A further 7.1 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 15.7 percent for men and 21.1 percent for women. The biggest fall in collective agreement membership was among 15-24 year olds – down 7.3 percent over the year, though the proportion rose 8.3 percent over the quarter. Those aged 65+ fell 6.0 percent in the year but rose 1.9 percent in the quarter. But there was a strong rise for 55-64 year olds – up 5.6 percent in the year and 1.9 percent in the quarter. Collective agreement membership grew in all age groups except 35-44 year olds over the quarter. By industry, one of the largest falls over the year was Public Administration and Safety (down 2,600, density falling from 37.0 percent to 33.5 percent), and the largest rises were in Health Care and Social Assistance (up 3,800, density rising from 34.7 percent to 35.3 percent) and Manufacturing (up 3,000 and density up from 19.5 percent to 20.3 percent). Again, these figures could be affected by seasonal variations in numbers.

★ By **employment relationship**, in the December 2017 quarter, 89.8 percent of employees (1,906,500) reported they were permanent, 5.3 percent casual (112,300), 2.4 percent fixed term (50,500), 1.4 percent seasonal (29,500), and 0.4 percent employed through a "temporary agency" (8,900). The proportion reporting they were permanent was down from 90.7 percent (1,898,500) three months before and from 89.3 percent (1,840,300) a year before. Women were slightly less likely to be permanent employees: 88.7 percent of women were permanent compared to 90.9 percent of men. Instead, women were more likely to be casual (6.0 percent of them compared to 4.6 percent of men) or fixed term (3.1 percent of women compared to 1.7 percent of men). However more men were in seasonal work than women – 1.6 percent of men (17,000) compared to 1.2 percent of women (12,600). Of the temp agency employees, 5,100 were men and 3,800 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.

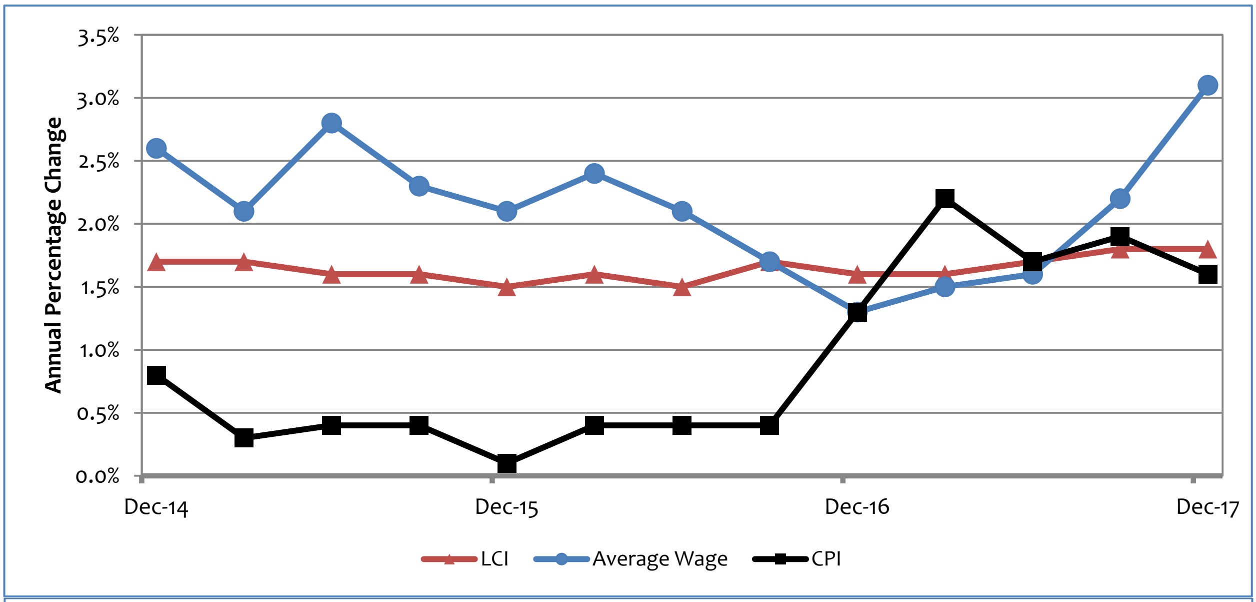
★ By **duration of employment (job tenure)**, in the December 2017 quarter, 24.4 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 32.3 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 16.8 percent had been in their job for at least five but less than ten years, and 25.4 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, 26.8 percent of men had been in their jobs for more than 10 years, but only 23.9 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 32.4 percent of 25-34 year olds, but only 14.9 percent of 45-54 year olds and 9.5 percent of 55-64 year olds. Small differences may not be statistically significant.

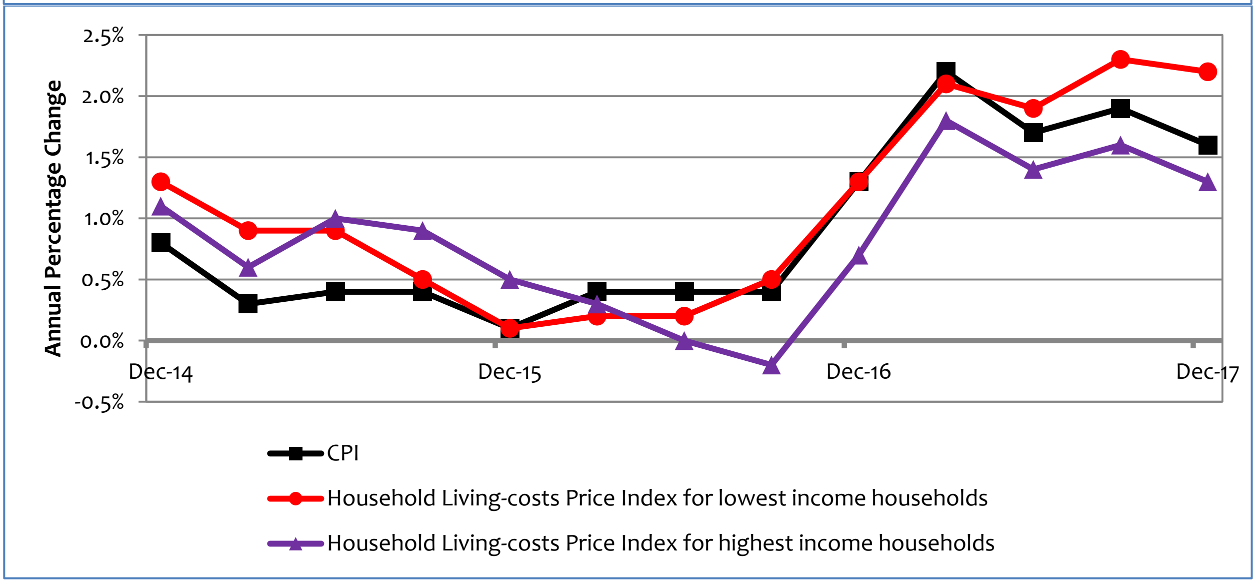
- The Ministry of Social Development reports that at the end of December 2017 there were 123,041 working age people on the Jobseeker benefit, 1,270 fewer than a year before but a rise of 2,315 from 120,726 three months before. At December 2017, 65,613 were classified as 'Work Ready', and 57,428 were classified as 'Health Condition or Disability'. A total of 289,788 were on 'main' benefits, 7,222 fewer than a year before, mainly due to 4,292 fewer on Sole Parent Support, and 12,568 more than three months earlier, mainly because of 8,800 coming on to Jobseeker Support Student Hardship benefits – a seasonal effect. Of the 39,846 benefits cancelled during the three months to December, 19,286 or 48.4 percent of the people obtained work, 13.5 percent transferred to another benefit and 1.5 percent became full time students. A further 2,390 (6.0 percent) left on their 52 week reapplication or annual review. A total of 14,778 suffered sanctions, the majority (11,889) on a Jobseeker benefit. Of the total sanctioned, 42.9 percent were Māori, though 35.9 percent of working-age benefit recipients were Māori.

★ Job Vacancies Online for January 2018 showed the seasonally adjusted number of job vacancies rose by 0.2 percent in the month and rose 6.3 percent over the same month a year previously, while the trend rose by 0.4 percent and 6.6 percent respectively. Over the month, the trend of vacancies in Auckland was no change, in Bay of Plenty up 2.0 percent, Canterbury up 0.3 percent, Gisborne/Hawke's Bay up 0.8 percent, Manawatu-Whanganui/Taranaki up 0.8 percent, Nelson/Tasman/Marlborough/West Coast up 0.9 percent, Northland up 1.6 percent, Otago/Southland up 1.1 percent, Waikato up 1.0 percent and Wellington up 0.4 percent. By industry, Accounting, HR, legal and admin trended up 0.2 percent in the month, Construction and engineering rose 0.2 percent, Education and training rose 0.8 percent, Healthcare and medical rose 0.8 percent, IT fell 0.2 percent, Sales, retail, marketing and advertising rose 1.0 percent, and Other rose 0.3 percent. By occupation, Manager vacancies trended up 0.6 percent, Professionals rose 0.3 percent, Technicians and Trades workers rose 0.5 percent, Community and Personal Services rose 0.5 percent, Clerical and Administration rose 0.3 percent, Sales rose 1.2 percent, Machinery Drivers and Operators rose 0.5 percent, and Labourers rose 1.0 percent.

★ International Travel and Migration statistics showed 11,410 permanent and long-term arrivals to New Zealand in January 2018 and 5,200 departures in seasonally adjusted terms, a net gain of 6,210 which was 430 up on the previous month. There was a seasonally adjusted net gain from Australia of 30, compared to a gain of 100 a year before. It was made up of a net loss of 380 New Zealand citizens offset by a net gain of 410 citizens of other countries. There was an actual net gain of 70,147 migrants in the year to January, up from 70,016 in the year to December 2017, but down from 71,305 the previous January year. Net migration from Australia in the year was 38 arrivals, with 24,813 departures and 24,851 arrivals. However there was a net loss of 5,131 New Zealand citizens to Australia over the year and a net loss of 993 to all countries. In January, 10.3 percent of the arrivals had residence visas, 21.9 percent student visas, 31.6 percent work visas, and 5.5 percent visitors. A further 30.0 percent were New Zealand or Australian citizens.

Wages and prices





- See item on the falling share of national income going to wages and salaries under [Economy](#) above.

★ The [Labour Cost Index](#) (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to December 2017 and increased 1.8 percent in the year. It rose a little more than the 1.6 percent increase in the CPI but that was due to the pay equity increase in June. Statistics New Zealand says: "The Care and Support Worker (Pay Equity) Settlement Act (2017) continues to contribute to annual wage growth in the healthcare and social assistance industry. Had this Act not come into effect, LCI wages and salaries would have increased 1.6 percent in the year to the December 2017 quarter." The LCI increased 0.5 percent in the public sector and 0.4 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 51 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 3.7 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 2.7 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. Only 45 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 December 2017 found the average hourly wage for ordinary-time work was $30.68, up 0.8 percent on the previous quarter and up 3.1 percent over the year, significantly more than the 1.6 percent rise in the CPI. Female workers (at $28.63) earned 11.7 percent less than male workers (at $32.41) for ordinary time hourly earnings. The average ordinary-time wage was $28.60 in the private sector (up 0.8 percent in the quarter and 3.1 percent in the year) and $38.85 in the public sector (up 0.4 percent in the quarter and 3.2 percent in the year). Average total hourly wages (including overtime) ranged from $19.50 in Accommodation and food services and $21.44 in Retail trade, to $42.33 in Finance and insurance services, and $40.67 in Information, media and telecommunications. In Accommodation and food services, 58.2 percent of employee jobs were part time, and in Health care and social assistance 43.0 percent were part time; in Retail trade 42.3 percent were part time; 39.1 percent were also part time in Arts, recreation and other services, and 31.2 percent in Education and training. Together these five industries made up 68.6 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 0.1 percent in the December 2017 quarter compared with the September 2017 quarter, below most expectations. It rose 0.4 percent in seasonally adjusted terms. It increased 1.6 percent for the year to December. For the quarter, the largest single upward influence was Petrol (up 6.1 percent), and the Transport group together contributed more than three times the total rise. However Housing and household utilities was also a large contributor, rising 0.6 percent, mainly as a result of rents rising 0.5 percent, a 1.3 percent increase in the cost of new houses, and a rise of 1.6 percent in the cost of property maintenance services. These were offset however by falls in Food (falling 1.7 percent and negating most of the rise in Transport, with Vegetables falling 18.6 percent). House insurance was up 3.0 percent, contents insurance 1.1 percent and Real estate services up 0.5 percent, so the prices of many aspects of housing rose much faster than prices in general. Alcoholic beverages and Tobacco prices fell 0.6 percent, Clothing and footwear fell 1.2 percent, Household content and services fell 1.5 percent, Health fell 0.3 percent, and Communications fell 1.5 percent. Over the year, Housing and household utilities was the biggest driver in the rise, up 3.0 percent and contributing almost half (48.1 percent) of the CPI increase with new housing up 5.3 percent, rents up 2.3 percent, and all the other subgroups rising faster than overall CPI: Property maintenance up 3.6 percent, Property rates and services up 3.2 percent and Household energy up 2.0 percent. Rents rose fastest in Wellington but fell in Canterbury. House insurance was up 13.4 percent, and Real estate services were up 3.8 percent. Professional services were also up 4.6 percent. Not part of the CPI (though in the Household Living Cost Indexes) is Interest, which was still falling in December (down 0.1 percent in the quarter and 2.6 percent over the year) though the fall is slowing. Other major contributors to the annual increase were Food (up 2.3 percent,

This is the first release of the CPI after a three-yearly review of items surveyed to calculate the CPI, and their relative weights to ensure their continued relevance and accuracy. As a result, 15 items were removed and 23 added. One addition was "private accommodation rented from others" (presumably including Airbnb and similar) which rose 13 percent in the December 2017 quarter.

accounting for over a quarter or 26.0 percent of the increase), Alcoholic beverages and tobacco (up 4.2 percent, accounting for 19.5 percent of the increase), and petrol which accounted for a sixth (16.2 percent) of the total, rising 6.5 percent. In seasonally adjusted terms, the CPI rose 0.4 percent over the last three months, Food rose 0.2 percent, Alcoholic beverages and tobacco rose 1.0 percent, Clothing and footwear fell 1.3 percent, Housing and household utilities rose 0.8 percent, Communications fell 1.1 percent, Recreation and culture rose 0.2 percent, and Education rose 0.9 percent. Over the year, in Auckland consumer prices rose 1.7 percent, Wellington 1.3 percent and they rose 2.0 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 0.6 percent and it was 1.6 percent in the rest of the South Island.

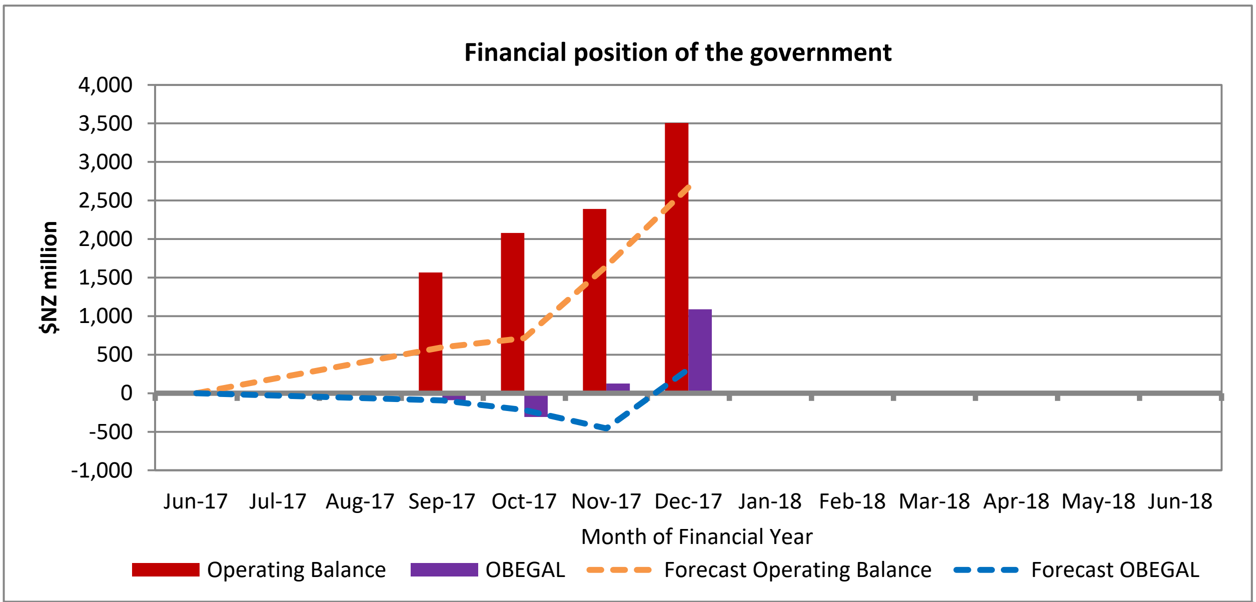
★ The Household Living-costs Price Indexes (HLPIs) for the year to December 2017 again showed lower income households experiencing faster price rises than higher income households. Lowest spending households saw their living costs rise 2.2 percent over the year while prices for the highest spending households rose only 1.3 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: 53.7 percent of the expenditure of the lowest income one-fifth of households went on Food and Housing and household utilities in 2017, and the increases in those costs made up 77 percent of the increase in their living costs, compared to being only 33.3 percent of the expenditure of the highest income one-fifth, making up 59 percent of the increase in their living costs over the year. High income households also received more relief from falling prices for Clothing and footwear, Household contents and services, Communications, and Recreation and culture, which together removed 34 percent of their costs increases compared to just 9 percent of the costs of low income households. Over the year, the All households HLPI index rose 1.8 percent, the Beneficiary households index rose 2.4 percent, the Māori households index rose 2.1 percent, and the Superannuitant households index rose 2.1 percent. By income quintile, the index for the lowest income households (quintile 1) rose 2.2 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.5 percent, and quintile 5 (the highest incomes) rose 1.3 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.4 percent, quintile 2 rose 2.1 percent, quintile 3 rose 1.8 percent, quintile 4 rose 1.5 percent, and quintile 5 rose 1.3 percent. Over the December quarter, the All households HLPI index rose 0.2 percent, the Beneficiary households index rose 0.2 percent, the Māori households index rose 0.1 percent, and the Superannuitant households index rose 0.1 percent. By income quintile, over the quarter the index for the lowest income households (quintile 1) rose 0.1 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.1 percent, quintile 4 rose 0.2 percent, and quintile 5 rose 0.2 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.1 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.2 percent, quintile 4 rose 0.3 percent, and quintile 5 rose 0.3 percent.

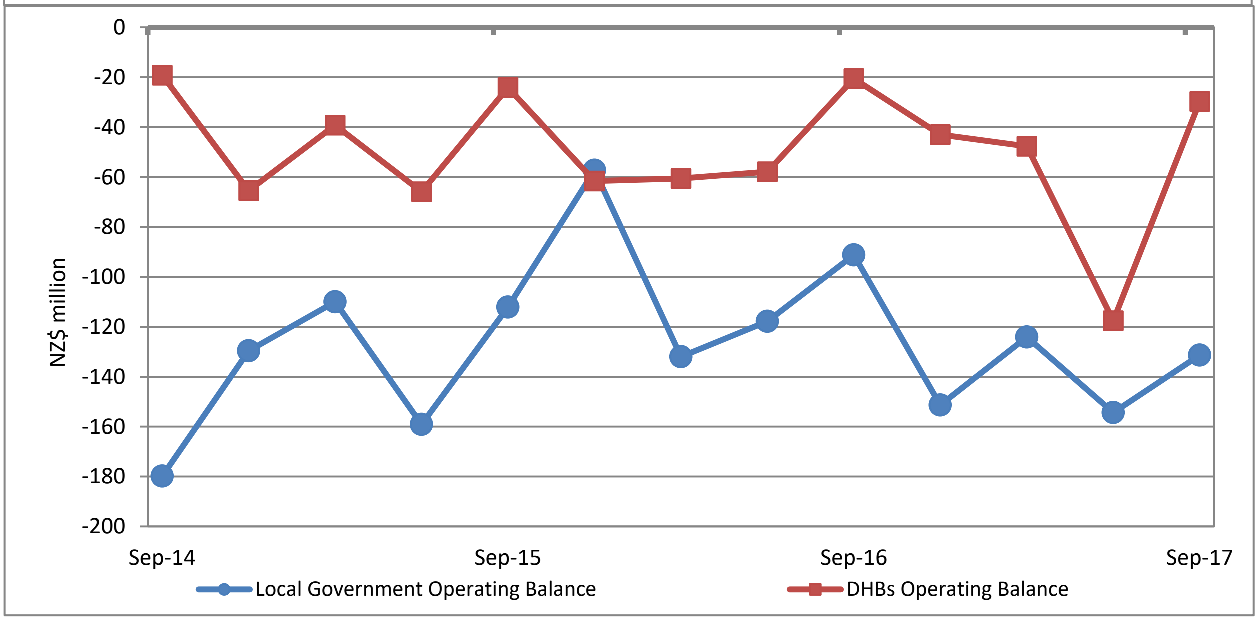
HLPIs show price increases like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by fourteen different types of households. See the commentary in the November 2016 Bulletin for more detail. Weights reflecting the proportion of different products bought by households were updated starting from the December 2017 release.

★ The Food Price Index rose 1.2 percent in the month of January 2018 (and fell 0.6 percent in seasonally adjusted terms). Food prices rose 0.8 percent in the year to January 2018. Compared with the previous month, fruit and vegetable prices rose 2.0 percent (and fell 3.1 percent seasonally adjusted); meat, poultry, and fish prices rose 2.4 percent; grocery food prices rose 1.4 percent (and rose 0.4 percent seasonally adjusted); non-alcoholic beverage prices rose 1.2 percent;

and restaurant meals and ready-to-eat food prices rose 0.1 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 six months to 31 December 2017, core Crown tax revenue was $0.6 billion (1.6 percent) higher than forecast in the 2017 Half-Year Economic and Fiscal Update (HYEFU 17). GST revenue was $0.2 billion higher than forecast and source deductions (PAYE income tax) were $0.3 billion higher than expected "likely due to higher employment growth" than forecast. Overall core Crown revenue was $0.6 billion or 1.6 percent higher than forecast. Core Crown expenses were $0.2 billion (0.4 percent) higher than forecast, mainly because of timing issues. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $0.8 billion better than forecast, with a $1.1 billion surplus instead of the $0.3 billion deficit forecast. However there were substantial unforecast gains and losses, with net investment gains of $4.3 billion, $1.8 billion more than forecast, offset by a $1.7 billion increase in estimates of future liabilities, mainly an increase of $1.6 billion in ACC's claims liability, due to lower than expected discount rates. The result was that the Operating Balance was $0.8 billion better than forecast with a $3.5 billion surplus. Net debt at 23.2 percent of GDP ($64.5 billion) was $0.5 billion lower than forecast. Gross debt at $84.6 billion (30.4 percent of GDP) was $0.6 billion more than forecast. The Crown's net worth in financial terms was $0.8 billion higher than forecast at $114.1 billion.

★ District Health Boards had 423 fewer full time equivalent staff than planned at the end of December 2017 (64,105 compared to 64,527 planned). All categories of staff were affected except Medical Personnel (doctors – 112 over plan) and Nursing (168 over plan), with shortfalls in Allied Health Personnel (423 short), Management/Administration staff (198 short), and Support Personnel (82 short). Average costs per full time equivalent staff were $700 below those planned ($94,500 compared to $95,200). The DHBs had accumulated combined deficits of $79.2 million in the six months to December. This is $19.8 million worse than their plans. The Funder arms were in surplus by $37.1 million, $14.5 million more than the $22.6 million surplus planned, and Provider arms (largely their hospitals) in deficit by $119.0 million, $35.4 million worse than planned. The Northern region was $3.1 million behind plan with a deficit of $2.8 million and three of the four DHBs in deficit. The Midland region was $6.4 million behind plan with a deficit of $15.6 million and all of the five DHBs in deficit. Central region was $5.6 million behind plan, a combined $24.4 million deficit and all of the six DHBs in deficit. The Southern Region was $4.7 million behind plan with a $36.4 million deficit and four of the five DHBs in deficit, with Canterbury showing a $23.1 million deficit and Southern $11.6 million. In all, just two of the 20 DHBs were in surplus and just three were ahead of plan. The DHB furthest ahead of plan was Counties Manukau by $0.7 million, and Southern was furthest behind, by $3.5 million. Capital expenditure across all DHBs was behind plan with $172.0 million spent out of $272.5 million planned.

○ Local Government in the September 2017 quarter recorded a 0.3 percent ($6.8 million) decrease in operating income in seasonally adjusted terms and a 1.1 percent fall in operating expenditure ($29.8 million) including a 0.1 percent fall in employee costs (down $0.5 million) compared to the previous quarter. This resulted in an operating deficit of $131.4 million in the quarter, compared with a deficit of $154.4 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 seasonally adjusted figures are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin197.

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