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Commentary

2019: Outlook

Summary

This commentary looks at the year ahead. The Prime Minister has described this as the year of 'delivery' for the Government and she aint wrong. In addition we need to keep an eye on what's happening in New Zealand's economy and society, and how international events could affect us.

Numerous Government working parties will report back during the year. Three notable inquiries for working people are on Fair Pay Agreements (whose report has just been released), tax (soon to be with the Ministers) and the welfare system (due in the next few weeks). Their common theme is fairness and reducing inequalities. Potentially, they are all moves in the right direction.

Yet New Zealand is stubbornly stuck at the high level of income inequality it reached in the mid 1990s. There seems to be no will to challenge New Zealand's high inequality sufficiently to return it to our early 1980s position of being one of the more egalitarian societies in the world. The question will be: if implemented, will these be enough? I don't believe so.

Housing is at least as big and important. The Opposition and media have of course tried to paint the Kiwibuild programme as being in crisis. But turning around housing affordability is an enormously difficult endeavour. To fault a programme because it has not succeeded in six months where previous Governments have barely tried is shallow nonsense. That doesn't mean it is perfect, but it should be fixed and set to work.

Over all these areas looms the big question: can the Government do enough under its self-imposed restrictions on spending and borrowing – its Budget Responsibility Rules? It says we need lower debt for a "rainy day" such as a global downturn or natural disaster. But by international standards we are already well within safe debt levels and could have a higher level of debt without it damaging our resilience. The bigger danger in our present situation is that by diverting spending to further reduce debt, we damage the capability of our society to prosper.

There is international debate on these matters and on the austerity policies that held back recovery. New policies are being discussed which give the Government other choices.

The most likely cause of a downturn in New Zealand's economic activity is from outside New Zealand. There certainly are risks from the US, China and Europe, but none are certainties. It does mean that the government should be thinking through how to respond so that New Zealand sustains minimum damage. Given already low interest rates, the Reserve Bank does not have much room to stimulate the economy by conventional monetary measures. The government needs to ready other options.

This is far from doom and gloom. The economy is trucking along, with unemployment approaching the low 2007 levels. There is plenty of opportunity to make real change. The Government should take it.

Happy new year. This commentary looks at the year ahead. The Prime Minister has described this as the year of 'delivery' for the Government and she aint wrong. There's a river of work required to act on the Coalition Government's many reviews and commitments. In addition we need to keep an eye on what's happening in New Zealand's economy and society, and how international events could affect us.

Work to be done

The Government has famously set up numerous working parties which will report back this year. Though exhausting, it is good to be consulted.

Three notable inquiries for working people are on Fair Pay Agreements (whose report has just been released to the public), tax (whose report will soon be with the Ministers of Finance and Revenue) and the welfare system (whose report is due in the next few weeks). Their common theme is fairness and reducing inequalities. It is worth considering what the needs are here.

New Zealand is stubbornly stuck at the high level of income inequality it reached in the mid 1990s. It went down a little in the mid to late 2000s and up again under the previous Government. We are in the most unequal third of those high income countries, saved from a worse ranking by the rest of the OECD having deteriorated too. One of the already published findings of the Tax Working Group (of which I was a member) is that our tax system is one of the weakest in the OECD at reducing income inequality, and so is our welfare system including Working for Families. Together and separately, they have got steadily worse at reducing inequality since the 1990s.

The Government has thankfully stated that it has a priority to reduce child poverty, though it is shackled by its Budget Responsibility Rules in doing much more than it did last year (and *much* more is needed). But child poverty (and don't forget adult poverty) is only one part of the inequality disease. There is the concern at high incomes outstripping the rest of us, bringing increased political influence to protect their privileged position. There is the concern at the "hollowing out" of middle incomes and wages for workers with mid-range skills. Lasting income inequality also brings growing wealth inequality, which can be passed on from generation to generation. Yet there seems to be no will, let alone commitment, to challenge New Zealand's high inequality and return it to our early 1980s position of being better than the OECD average, one of the more egalitarian societies in the world.

What would be needed to do this? It would need three pillars. Firstly we need to reduce inequality in gross incomes (before tax and welfare payments). Secondly the tax system needs to be much more progressive – taxing higher incomes at a significantly higher rate to make it more inequality-reducing. Thirdly our welfare and tax credit system needs to be greatly strengthened.

The first pillar is needed because otherwise the other two have to do too much work – they will meet barriers of political acceptance and sensible design. It should focus on the wage setting system and FPAs can play a useful part in that, along with strengthened collective bargaining. The second pillar, a more progressive tax system, is needed both to adequately fund public services, including the welfare system, and to reduce high income inequality, which the welfare system cannot do. Taxing income from capital gains would help because it is so unequally distributed, but as we can see from other OECD countries who already do so (most of them) it would not be nearly enough. The third pillar, a strengthened welfare and tax credit (Working for Families) system is necessary to prevent people descending into poverty when misfortune hits. The OECD has also pointed out how weak our support is for workers who lose their jobs because of globalisation, technology, climate change and restructuring.

The Government has implemented its Families Package and has a priority to reduce child poverty. We await the findings of the Welfare Expert Advisory Group. It has reformed most of the excesses of the Employment Relations Act brought in by the previous Government, and we await its response to the Fair Pay Agreement working group. We also await its response to the Tax Working Group's report. Much will depend on the attitude of its coalition partners. Potentially, these are all moves in the right direction.

But the question will still be: if they are implemented, will they be enough? I don't believe they will be. How long will Governments continue to tolerate these high levels of inequity and unfairness?

Of course these are not the only big projects it has on its agenda. Housing – whether building more public housing or pushing down the cost of new housing through its Kiwibuild programme – is at least as big and important. The Opposition and media have of course tried to paint the Kiwibuild programme as being in crisis. If it were, New Zealand would be in crisis too because it is essential to build more low cost houses. But turning around housing affordability is an enormously difficult endeavour. It is impacted by (and impacts) just about every other aspect of the economy and our lives: the construction industry, skills creation and retention, city planning, our environment, credit availability, monetary policy, public and private debt levels, immigration settings, income and wealth distribution, our tax system and vested interests in the status quo. To fault a programme because it has not succeeded in six months where previous Governments have barely tried is shallow nonsense.

As even Wellington property developer Ian Cassels said (though with a touch of self-interest),

> "It is unavoidable that you will get hiccups and teething problems. This hiccup is practically insignificant." Turning around an entire building culture was hard work but essential if young people were ever to afford to buy a home. "Of course, it's easy to poke fun at [the policy]," he said. "But wouldn't it better to accept that we're going to have to do it – and make positive suggestions on how we can do it better?"[1]

The scheme is not perfect. Some are criticising for the opposite reason: that it is not ambitious enough. The houses are barely affordable for most and not affordable for many. It is running into the problem of trying to use the existing dysfunctional construction industry to change itself. The Government should be thinking about doing some of its own building, and making more use of factory-built modules or whole houses to get down prices without compromising quality.

Can the Government do enough?

But over all these areas looms the big question: can the Government do enough under its self-imposed restrictions on spending and borrowing – its Budget Responsibility Rules? Sure, it can and will reprioritise its resources to the degree it has room to move, but in the end it is trying to make real change with little more resources than the previous Government which signally failed to address social, economic and environmental needs. The demand for shared resources is only going to increase as the world faces the impacts of climate change and technological change, our population ages and the concern grows about poverty and inequality, intensified by these trends and by globalisation.

The Government says we need lower debt for a "rainy day" such as a global downturn, to which I return below, or natural disaster. We do need to be able to respond to such events with sufficient resources to

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[1] "KiwiBuild ballot process is 'pretty cold, harsh' – developer", Radio NZ, 31 January 2019. https://www.radionz.co.nz/news/political/381334/kiwibuild-ballot-process-is-pretty-cold-harsh-developer

minimise damage to our society and economy. But by international standards we are already well within safe debt levels and can afford a higher level of debt without it damaging our resilience.

The bigger danger in our present situation is that by further reducing debt, we damage (or delay repairing) the capability of our society to prosper. It may also make such events more damaging. How can run-down hospitals respond adequately to a major natural disaster without compromising their ongoing role? How can we rehouse people after such a disaster if housing was inadequate in the first place? How can we educate and train workers and citizens for the needs of the future if our tertiary institutions are on the verge of financial insolvency and workplace training is failing?

There is international debate on these matters and the related issue of austerity policies that held back recovery, particularly in Europe[1]. I hope to write about this later in the year. But like levels of public spending and revenue, there is no good evidence for a particular debt level to be optimal. Public debt does not need to be paid off, particularly in the present situation where interest rates have been falling for at least two decades and are now lower than nominal GDP growth. That means that a given level of public debt falls as a proportion of GDP without being repaid (and the government is different from other borrowers because it never retires or dies and can tax). Budget deficits do not weaken our debt position as long as the deficit plus interest does not increase debt faster than the growth in GDP.

A balance is required between these levels of spending, revenue and debt, what society needs in the way of public services, infrastructure and fair distribution of resources, what the public is willing to contribute in revenue, the possible risks to the economy such as international downturns, excessive household debt or major natural disaster, and the ability of the economy to produce at a desired level (or its failure to do so such as during a recession). This balance is more difficult in a small open economy like New Zealand, but that does not mean we have to take refuge in arbitrary and ultimately damaging policies.

The Government has choices including the balance between borrowing and revenue-funding infrastructure spending, borrowing from the Reserve Bank when the economy is operating below capacity such as in a downturn, and persuading the public that more tax needs to be raised because of the run-down state of public services or the necessity for additional services to meet identified needs.

The international situation

The most likely cause of a downturn in New Zealand's economic activity is from outside New Zealand. While economic growth has slowed a little, there is no sign of a domestic downturn, and government spending such as on the families package, infrastructure investment and the regional fund will be helping. Historically it has been falls in export prices such as for wool or dairy products that have set off most of New Zealand's recessions – or in the case of the 1970s, a steep rise in an import price: oil.

New Zealand's goods trade prices are currently in the strongest situation recorded since the commodity boom during the 1950-51 Korean War. The 'terms of trade' which show the volume of imports that can be bought with a fixed volume of exports was only (slightly) higher during that extraordinary episode. That doesn't mean the terms of trade can't come down, but it is worth thinking about why that would happen.

China is our largest export market. As the Overseas Trade section below records, almost a quarter, 24.2 percent, of New Zealand's goods exports go to China. Services such as tourism and education are also

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[1] See for example https://mainlymacro.blogspot.com/2019/01/should-we-worry-about-temporarily.html and the 2019 American Economic Association Presidential Address by former IMF Chief Economist Olivier Blanchard which it links to.

significant (about a quarter of the value of goods exports), but three-quarters of the goods exports are commodities, principally milk powder, logs, meat, fish and fruit. Dairy alone (mainly milk powder) is almost a third of goods exports. If China's economy falters, there could be falling demand for those exports, or falling prices. China's domestic economy has very high debt levels, made particularly worrying by over-investment in property. The Chinese government is very capable of managing the situation (and well practised) but it may become too difficult to manage without significant hits to production and employment. There are external risks from its trade 'war' with the US. There are signs that its huge manufacturing sector is slowing – perhaps due to increasing US trade barriers for its exports (many made for US companies). Its economy's rate of growth is slowing slightly – though still above 6 percent per year.

A downturn in China would have repercussions around the world, not least in Australia (our second largest export market, and a big market for manufactured goods) and the US (third largest). The US has its own problems. It is on an artificial high from huge corporate tax cuts and the remains of the monetary stimulus from the Global Financial Crisis, which is gradually being phased out (opposed by Donald Trump). These have not led to a significant increase in business investment, and there is concern at what will happen as the monetary stimulus is withdrawn. Businesses are facing higher costs from the trade 'war' and Trump's Federal shutdown has not helped. Overall, there is continuing uncertainty as to where the US is heading. The possibilities range from wars to a powerless, lame duck administration unable to take meaningful decisions. That could intensify a recession if one came.

Parts of Europe are still in depression (Greece), recession or deep trouble (such as Spain and Italy). Brexit creates big uncertainty for the U.K. though the indicators are mixed, with falling investment but rising wages and employment – not all due to Brexit. If it crashes out of the European Union, there will be a period of turmoil. The consequences for the rest of Europe are not yet clear, with intolerant right-wing governments and supporters of exiting in many states. The EU is a huge economy but the Greek tragedy shows it is badly equipped to deal with a serious recession. The political differences and the growing politics of intolerance cannot help. That could rebound on the rest of the world.

Finally there remains the risk of another financial crisis. Internationally the financial sector has resisted the regulatory reforms needed (helped by Trump). Many of the problems that led to the last crisis remain.

So there are real dangers in the rest of the world, and reasons to be worried that if there was an international downturn, triggered by slowing trade or another financial crisis, its social and economic effects could be exacerbated by political factors. But it would be wrong to consider these certainties.

It does not mean we should disable ourselves by focusing on debt reduction and constraining important spending. It does mean that government leaders and officials should be thinking through how to respond so that New Zealand sustains the minimum damage. Given already low interest rates, the Reserve Bank does not have much room to stimulate the economy by conventional monetary measures. The government needs to ready other options using its power to fund public infrastructure projects (there is plenty of need for them) or to put money into the bank accounts of households likely to spend it. It should review the tax and welfare systems to ensure they will be as effective 'automatic stabilisers' as possible.

In conclusion

This is far from doom and gloom. The economy is trucking along, with unemployment approaching the low 2007 levels. There is plenty of opportunity to make real change. The Government should take it.

Bill Rosenberg

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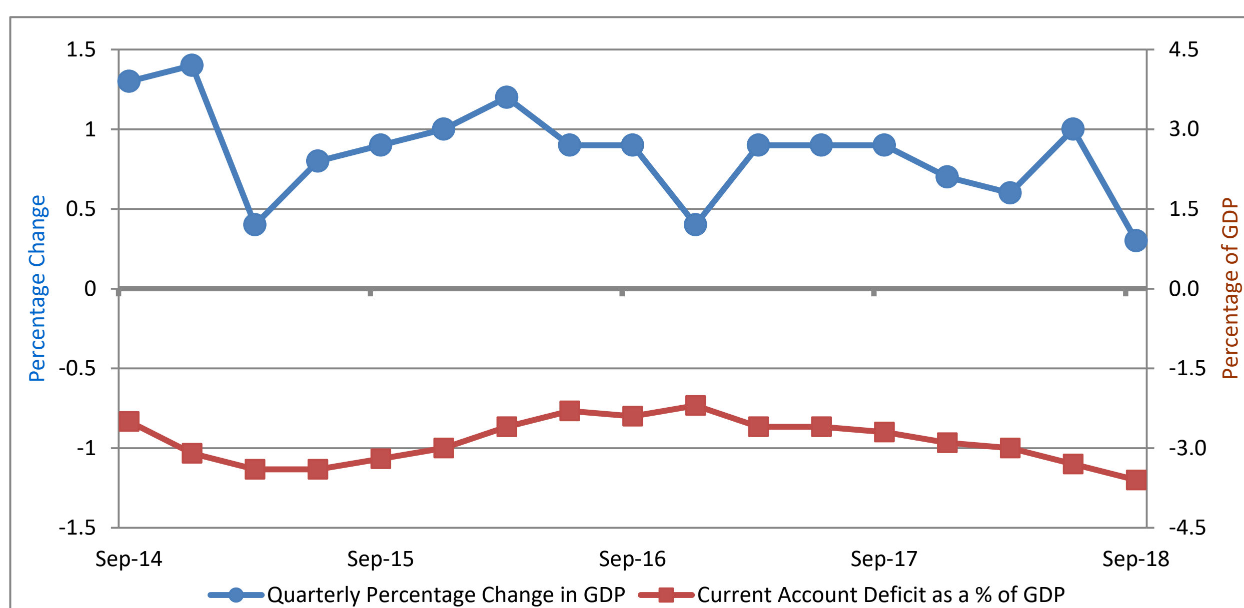
A ★ indicates information that has been updated since the last bulletin.

Forecast

★ This NZIER consensus forecast was released on 10 December 2018.

Annual Percentage Change (March Year)	2018-19	2019-20	2020-21	2021-22
GDP	2.9	3.0	2.9	2.6
CPI	1.9	1.9	2.0	2.0
Private Sector average hourly wage	3.0	3.3	3.4	3.1
Employment	2.3	1.7	1.7	1.5
Unemployment rate (% of labour force)	4.2	4.1	4.1	4.2

Economy



★ Growth in New Zealand's measured economy in the three months to September 2018 was much weaker than the previous quarter, with Gross Domestic Product rising by 0.3 percent, down from 1.0 percent in the previous quarter, though it is unlikely this is a new trend. Average growth for the year

ended September 2018 was 3.0 percent (and 2.6 percent compared to the same quarter last year). Growth in GDP per person continues to be weak with a rapidly growing population (though population growth is slowing): GDP growth per person was static at 0.0 percent in the September quarter, down from a weak 0.5 percent in the June quarter, but up 0.7 percent over the same quarter in the previous year. GDP per person has been increasing at far below the rate in the 2000s when GDP per person was increasing at an average 2.4 percent a year. Since 2011 it has averaged 1.5 percent per year. Real gross national disposable income per capita, which takes into account the income that goes to overseas investors, transfers (such as insurance claims) and the change in prices for our exports and imports, rose 0.5 percent over the quarter and rose 1.2 percent over the year to June.

★ I estimate that labour productivity, measured by production per hour worked in the economy, fell 0.7 percent 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 rose 0.3% in the quarter, seasonally adjusted.

★ Business investment fell by 2.1 percent compared to the previous quarter, dominated by a fall in investment in Other Construction, which fell 4.2 percent following two falls and a rise in the three previous quarters, with a fall also in investment in Plant, machinery and equipment, which fell 1.6 percent following a fall and two rises in the previous three quarters. However Transport equipment investment rose 6.6% following strong rises in two of the previous three quarters, and one fall. Compared to the same quarter the previous year, growth was closer to the overall GDP average at 2.2 percent, driven by Transport equipment (up 15.1 percent) offset by a fall in Other construction of 7.1 percent. Investment in housing rose 1.3 percent in the quarter following two rises and a fall in three previous three quarters. It grew 2.7 percent compared to the same quarter a year before. Household consumption grew 1.0 percent in the September quarter in real terms, the same as the previous quarter after a 0.2 percent increase in March and increases of around 1.0 percent in quarters before that. It rose 3.3 percent over the same quarter in the previous year. Inflation in the economy as a whole, shown by the GDP deflator (a price index for expenditure on the economy's production, reflecting largely the revenue employers are getting for their products) rose 0.9 percent compared to the same quarter the previous year, and 0.5 percent in the most recent quarter.

★ By industry, the largest contributors to growth in the latest quarter were Mining (up 12.4 percent), Wholesale Trade (up 1.1 percent), Rental, hiring, and real estate services (up 0.7 percent), Professional scientific, technical, administration and support rose 0.6 percent and Health care and social assistance rose 0.9 percent. There were contractions in Manufacturing (down 0.8 percent), Electricity, gas, water and waste services (down 2.3 percent), Construction (down 0.8 percent), Transport, postal and warehousing (down 0.1 percent) and Information media and telecommunications (down 0.9 percent). Year-on-year, the biggest rises were in Transport, postal and warehousing (up 5.3 percent), Wholesale trade (up 5.0 percent), Professional, scientific, technical, administrative and support services (up 4.5 percent), and Retail trade and accommodation (4.2 percent); none contracted.

★ New Zealand recorded a Current Account deficit of $2.6 billion in seasonally adjusted terms for the September 2018 quarter, following a $2.7 billion deficit for the previous quarter. There was a deficit in goods trade ($1.0 billion, seasonally adjusted) following a $1.3 billion deficit in the previous

quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $74 million in goods and services (virtually unchanged from the $75 million surplus in the previous quarter) including a $1.1 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) was almost static on a deficit of $2.6 billion (seasonal adjustment not available). For the year to September 2018, the current account deficit was $10.6 billion or 3.6 percent of GDP, up from the $9.6 billion deficit in the year to June (3.3 percent of GDP). The deficit on investment income was $10.6 billion for the year.

★ The country's Net International Liabilities were $156.2 billion at the end of September 2018, up from a revised $154.5 billion at the end of the previous quarter and $154.3 billion a year before. The September liabilities were equivalent to 53.7 percent of GDP, little different from the previous quarter (53.6 percent) and down from 55.6 percent a year before. Net international liabilities would take 1.91 years of goods and services exports to pay off, down from 2.07 years a year before. However gross liabilities at $425.3 billion would take 5.20 years of goods and services exports to pay off. The rise in net liabilities over the quarter was due to a net $2.0 billion valuation increase offset by a $0.3 billion net outflow of investment. Without the valuation changes, the net liabilities would have been $154.2 billion. Statistics New Zealand comments: "New Zealand investment abroad was a $3.6 billion net inflow in the latest quarter. This was due to a decrease in reserve assets ($2.3 billion), mostly in the form of short-term debt securities. Foreign investment in New Zealand was a $3.9 billion net outflow in the September 2018 quarter – driven by settlement of financial derivative liabilities ($2.2 billion) and withdrawal of portfolio investment ($1.5 billion)." New Zealand's international debt was $296.4 billion (other than shares; equivalent to 101.9 percent of GDP), of which 31.0 percent is due within 12 months, compared to $143.4 billion in financial assets (49.3 percent of GDP), leaving a net debt of $153.0 billion (52.6 percent of GDP). Of the net debt, $2.6 billion was owed by the government including the Reserve Bank, and $116.5 billion by the banks (40.1 percent of GDP), which owed $158.3 billion gross.

★ Overseas Merchandise Trade for the month of December 2018 saw exports of goods fall in value by 0.5 percent from the same month last year while imports rose 6.6 percent. This contributed to a trade surplus for the month of $264 million or 4.8 percent of exports, following a series of high deficits in the previous four months. There was a trade deficit for the year of $5.9 billion or 10.1 percent of exports. In seasonally adjusted terms, exports rose 6.2 percent or $305 million over the month (compared to a 2.3 percent rise the previous month) with rises led by Crude oil (up from zero to $146 million, not seasonally adjusted), Dairy products (up 3.4 percent or $41 million), Seafood (up 7.1 percent or $9 million) and Electrical machinery and equipment (up 8.3 percent or $7 million) offset by falls led by Fruit (down 39.0 percent or $121 million), Logs, wood and wood articles (down 12.1 percent or $57 million), Meat (down 5.3 percent or $36 million), Wine (down 4.2 percent or $6 million) and Mechanical machinery and equipment (down 3.7 percent or $6 million). Seasonally adjusted imports rose 0.4 percent or $19 million over the previous month, leaving a trade deficit of $155 million following a $441 million deficit in the previous month. The rising imports were led by Petroleum and products (up 19.0 percent or $109 million, not seasonally adjusted), offset by falls led by Electrical machinery and equipment (down 14.2 percent or $64 million), Textiles (down 20.3 percent or $51 million), Plastics and plastic articles (down 7.6 percent or $16 million), and Mechanical machinery and equipment (down 0.7 percent or $6 million). In the year to December, 24.2 percent of New Zealand's exports went to China, 15.9 percent to Australia, 9.6 percent to the US, and 61.6 percent went to the top six countries buying New Zealand exports. This compares with

22.6 percent going to China in the previous year, and 60.4 percent going to the top six destinations. Over the same period, 19.8 percent of New Zealand's imports came from China (compared to 19.3 percent in the previous year), 11.5 percent from Australia, 10.1 percent from the US, and 57.9 percent from the top six countries selling to New Zealand, compared to 58.5 percent a year before. There were trade surpluses with China ($1.4 billion) and Australia ($1.9 billion) but deficits with most other major trading partners.

- The Retail Trade Survey for the three months to September 2018 showed retail sales rose 2.7 percent by volume and 4.0 percent by value compared with the same quarter a year ago. They were static by volume and rose 0.6 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Department stores and Fuel (both up 7.0 percent), Non-store and commission-based retailing (which includes online retailing, up 2.3 percent), and Clothing, footwear, and accessories (up 2.1 percent). Supermarkets and grocery stores sales (easily the largest single category, with 21.5 percent of sales over the year), rose 0.3 percent. Sales fell in six categories, led by Food and beverage services (down 2.4 percent), Pharmaceutical and other store-based retailing (down 2.2 percent), and Motor vehicles and parts (down 1.7 percent).

- ★ The Performance of Manufacturing Index for December 2018 was 55.1, a rise from 53.7 in the previous month. The employment sub-index was at 52.2, a rise from 51.2 in the previous month.

- ★ The Performance of Services Index for December 2018 was 53.0, down a little from 53.4 the previous month. The employment sub-index was down to where it was in the three months to September at 50.3 from 55.5 the previous month.

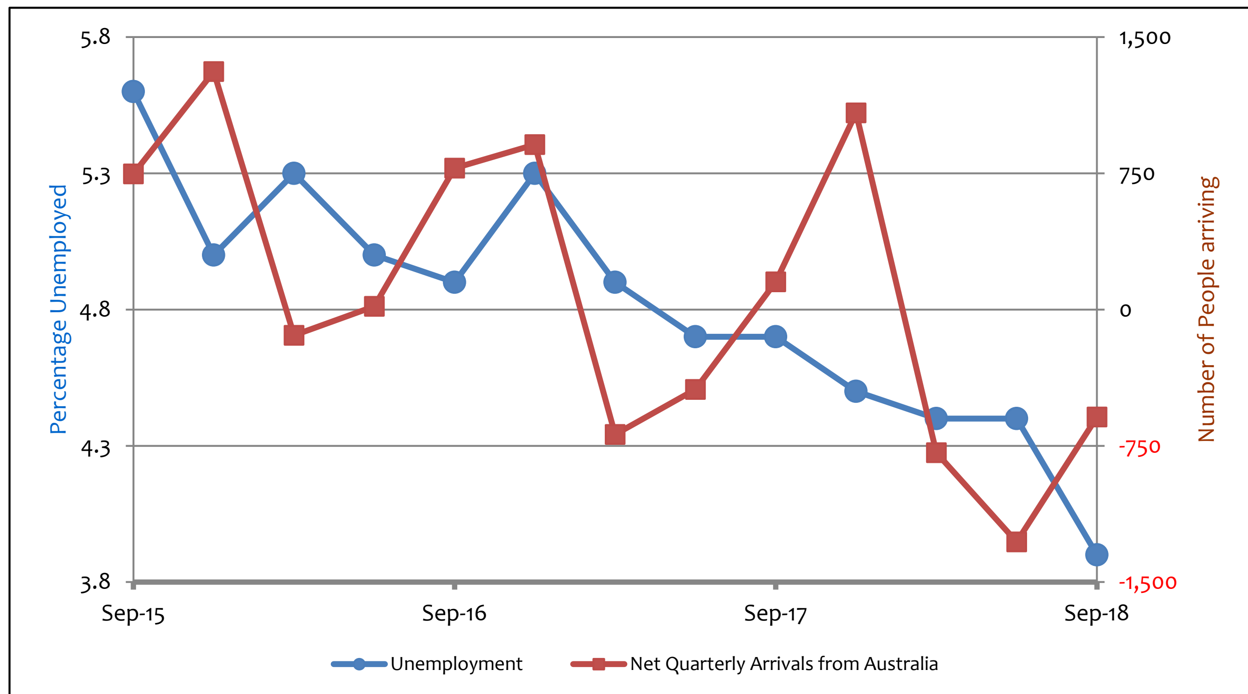
For these indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.

- On 8 November 2018 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. The Governor maintained the Bank's previous expectation that the OCR will remain "at this level through 2019 and into 2020." Commenting on the unexpectedly high GDP growth in the June quarter, he said that it "was partly due to temporary factors, and business surveys continue to suggest growth will be soft in the near term." Despite the business confidence surveys, the Bank's Monetary Policy Statement reported on its visits to businesses that "Most of the firms suggested that activity had remained robust over the past year. Investment intentions were generally strong, despite some uncertainty around government policy, with many firms noting that increasing labour costs would encourage capital investment." The Bank's view is still that "Employment is around its maximum sustainable level. However, core consumer price inflation remains below our 2 percent target mid-point, necessitating continued supportive monetary policy." It expects GDP growth to pick up over 2019. "Monetary stimulus and population growth underpin household spending and business investment. Government spending on infrastructure and housing also supports domestic demand. The level of the New Zealand dollar exchange rate will support export earnings." The Governor's statement concluded, as it did last time: "We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation." The next OCR announcement will be on 13 February 2019.

- ★ According to REINZ, over the year to December the national median house price rose $8,250 or 1.5 percent to $560,000 and REINZ's house price index rose 3.3 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 fell 2.9 percent seasonally adjusted while the house price index fell 0.3 percent. In

Auckland over the year the median price was up $2,000 or 0.2 percent to $862,000 while the house price index fell 1.7 percent. Over the month, Auckland's median price was up 1.8 percent seasonally adjusted, and the house price index fell 0.9 percent. Excluding Auckland, over the year the national median price rose $29,000 to $480,000 or 6.4 percent while the house price index rose 8.0 percent. Over the month the median price excluding Auckland was down 1.1 percent seasonally adjusted, and the house price index rose 0.3 percent. There was a record median price in Bay of Plenty (up 2.0 percent over the year to $610,000). Median prices rose over the year in every one of REINZ's 14 regions, the slowest rise being 0.2 percent in Auckland and fastest in the West Coast at 18.4 percent. Seasonally adjusted median prices rose over the month in Auckland (up 0.2 percent), Bay of Plenty (up 3.4 percent), Taranaki (up 1.3 percent), Canterbury (up 2.2 percent), and West Coast (up 22.7 percent) but fell in all other regions. Sales fell in all regions over the month, seasonally adjusted, except for West Coast which rose 0.7 percent, while over the year, sales fell in all but 4 regions, averaging a fall of 12.9 percent. The month had the lowest number of sales for the month of December for 7 years, REINZ said.

Employment



- According to the Household Labour Force Survey (HLFS) the seasonally adjusted **unemployment** rate in the September 2018 quarter fell sharply to 3.9 percent or 109,000 people, the lowest it has been since 2008, compared to 4.4 percent three months before (122,000 people). If it were the 3.3 percent it was in December 2007, 17,500 more people would have jobs. The seasonally adjusted female unemployment rate fell to 4.0 percent from 4.6 percent three months before, little higher higher than for men (3.9 percent) whose unemployment rate fell from 4.2 percent. Māori unemployment fell from 9.9 percent a year before to 8.5 percent in September 2018, while Pacific people's unemployment fell from 9.4 percent to 6.2 percent over the year. Compared to OECD unemployment rates, New Zealand rose from 14th to 9th equal lowest (out of 35 countries). However New Zealand remained the third-highest employment rate for 15-64 year olds at 78.2 percent.

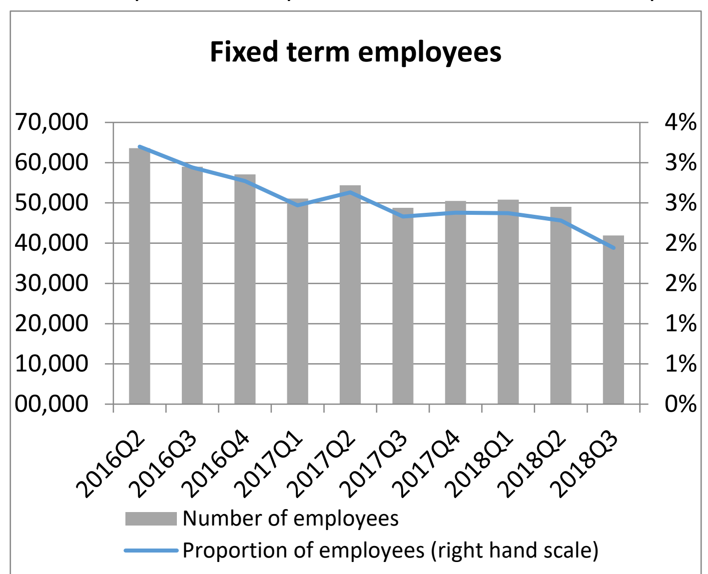
- **Youth unemployment** for 15-19 year olds was 14.7 percent in September, down from 19.7 percent three months before, and from 19.3 percent a year before (these and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and for Pacific Peoples are not; small differences may not be statistically significant). For Māori 15-19 year olds in September 2018, the unemployment rate was 23.0 percent, compared to 23.7 percent a year before. For 15-19 year old Pacific Peoples it was 16.3 percent, down from 30.1 percent a year before. For 20-24 year olds, youth unemployment was 6.4 percent, down from 7.7 percent three months before, and from 9.4 percent a year before. For Māori 20-24 year olds the unemployment rate was 8.9 percent, down from 13.2 percent a year before. For 20-24 year old Pacific Peoples it was 6.1 percent, down from 15.2 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 7.6 percent, down from 7.3 percent three months before but up from 7.3 percent a year before. For Māori 15-19 year olds the rate was 11.9 percent, up from 10.4 percent a year before and for Pacific Peoples it was 6.2 percent, down from 10.2 percent a year before. For 20-24 year olds the NEET rate was 12.3 percent, down from 14.0 percent three months before and down from 14.8 percent a year before. For Māori 20-24 year olds the NEET rate was 20.2 percent, lower than the 25.3 percent a year before, and for Pacific Peoples it was 18.9 percent, down from 30.0 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (10.9 percent) than those not in education (8.1 percent). There were 68,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, down from 73,000 three months before, and from 76,000 a year before.
- By **region**, in the North Island unemployment rates fell compared to a year ago in all of the eight regions. Northland had the worst regional unemployment rate at 6.2 percent but this was down from 6.6 percent a year before. All other North Island regions had unemployment rates under 5 percent, and Auckland at 3.7 percent (down from 4.6 percent a year before), Waikato at 3.4 percent, Bay of Plenty at 3.5 percent and Manawatu-Whanganui at 3.6 percent, all were under 4 percent. The South Island was more mixed, and its advantage in unemployment is being threatened by the North Island, with average unemployment in the South being 3.7 percent compared to 3.9 percent in the North. The only region in the country to see increased unemployment was Tasman/Nelson/Marlborough/West Coast where it rose to 3.9 percent from 2.2 percent a year before. Canterbury at 3.5 percent was down from 3.6 percent a year before, Otago at 3.8 percent was down from 3.9 percent a year before, and Southland at 4.3 percent was down from 5.2 percent a year before.
- There were 36,200 unemployed people in September 2018 who had been **out of work for more than 6 months** compared to 42,900 a year before. This is 34.3 percent of the unemployed compared to 34.9 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 15.4 percent of the unemployed compared to 15.0 percent a year before. After rising until last year, the proportion of long-term unemployed appears to have peaked and is edging downward.
- 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 September quarter there were a total of 326,000 people looking for work classed as "underutilised", or 11.3 percent of the labour force extended to include these people, in seasonally adjusted terms. Of them, 111,000 were underemployed, 109,000 were officially unemployed, and 106,000 were additional jobless people looking for work. The 11.3

percent underutilisation rate is down on the previous quarter (seasonally adjusted 12.0 percent) and 12.1 percent percent a year before. It is higher for women at 13.7 percent than for men (9.1 percent).

- The number recorded as **employed** rose by 30,000 over the three months to September 2018 (seasonally adjusted). It rose by 73,000 over the year. The employment rate rose to 68.3 percent over the three months. It was 63.6 percent for women and 73.2 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) rose from 70.9 percent to 71.1 percent, all in seasonally adjusted terms.
- **By industry**, the actual rise in employment of 24,400 in the three months to the September 2018 quarter (not seasonally adjusted) was made up of both gains and losses. The biggest gains were of 13,400 in Retail Trade and Accommodation, 11,500 in Health Care and Social Assistance, 8,900 in Arts, Recreation and Other Services, and 2,900 in Construction. These were offset by falls of 10,100 in Manufacturing, 6,600 in Professional, Scientific, Technical, Administrative and Support Services, 5,000 in Education and Training, and 3,800 in Information Media and Telecommunications. Over the year, the biggest contributors to the 73,200 additional jobs were 27,800 in Health Care and Social Assistance, 20,500 in Retail Trade and Accommodation, 11,900 in Professional, Scientific, Technical, Administrative and Support Services, and 8,900 in Arts, Recreation and Other Services. These annual increases were offset by falls over the year led by 8,200 in Agriculture, Forestry and Fishing, 3,300 in Construction, and 1,200 in Manufacturing.
- In the September quarter, total **union membership** was estimated at 411,500, a 0.6 percent fall from 413,700 in the previous quarter but up a strong 7.9 percent from 381,500 a year before. The membership is 19.1 percent of employees compared to 19.3 percent three months before and 18.2 percent a year before. Women make up 59.2 percent of the membership compared to being 49.8 percent of all employees. As a result, the proportion of female employees who are in unions is higher than for males: 22.6 percent compared to 15.5 percent. The increase in numbers was greater for females (up 8.9 percent over the year) than males (up 6.4 percent) so the pay equity settlement is a strong factor (see the industry breakdown below), but not the only one. All age groups except 45-54 year olds increased union membership over the year, though some fell in the quarter: 15-24 year olds were up 4.0 percent in the year but fell 12.9 percent in the quarter, 25-34 up 26.1 percent in the year and up 7.2 percent in the quarter, 35-44 up 5.9 percent in the year and 4.6 percent in the quarter, 45-54 down 3.8 percent in the year and down 4.7 percent in the quarter, 55-64 year olds were up 8.1 percent in the year but down 1.3 percent in the quarter, and 65+ were up 15.6 percent in the year but down 4.2 percent in the quarter. Most of these changes were driven by female membership. By industry, the strong union membership growth mainly came from Health Care and Social Assistance which increased 13,300 or 13.7 percent in the year, and Public Administration and Safety, which increased 8,200 or 16.4 percent, but there were also good increases in Agriculture Forestry and Fishing, up 1,100 or 46 percent, Retail, up 1,800 or 11 percent, Transport Postal and Warehousing Construction, up 1,500 or 6.4 percent, Information Media and Telecommunications up 1,100 or 41 percent, Financial and Insurance Services up 1,200 or 22 percent, Administrative and Support Services up 1,300 or 41 percent (but be careful about the accuracy given small numbers in these industries). However numbers and density fell by small amounts (probably not statistically significant) in a number of industries. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends.

- In the September 2018 quarter, total **collective employment agreement** coverage was estimated at 410,000 employees, which makes 19.0 percent of employees who said their employment agreement was a collective compared to 19.2 percent three months before and 18.1 percent (378,000) a year before. An estimated 69.1 percent (1,490,900) said they were on an individual agreement compared to 68.8 percent three months before and 68.5 percent a year before, and 5.6 percent or 119,900 said they had no agreement (which is illegal), compared to 5.7 percent three months before and 6.9 percent a year before. A further 6.3 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 15.8 percent for men and 22.2 percent for women. All age groups except 45-54 year olds experienced increases in membership of collective agreements over the year, though some fell during the quarter. Those aged 15-24 rose 7.3 percent in the year and fell 15.2 percent in the quarter, 24-34 years rose 26.4 percent in the year and 6.5 percent in the quarter, 35-44 rose 3.6 percent in the year and 2.3 percent in the quarter, 45-54 fell 0.6 percent in the year and fell 2.7 percent in the quarter, 55-64 year olds rose 7.2 percent in the year but fell 0.7 percent in the quarter, and members 65+ rose 15.7 percent in the year and 4.6 percent in the quarter. By industry, collective membership grew by 13,500 or 16.8 percent in Health Care and Social Assistance, 4,100 or 18 percent in Retail, 2,600 or 11 percent in Transport Postal and Warehousing, 2,600 or 5.2 percent in Public Administration and Safety, and some strong percentage increases in other industries (but also some falls). As with union membership, numbers and density fell by small amounts (probably not statistically significant) in a number of industries, the most notable being Wholesale Trade (down 1,000 or 14.7 percent).

- By **employment relationship**, in the September 2018 quarter, 91.5 percent of employees (1,974,400) reported they were permanent, 4.4 percent casual (94,800), 1.9 percent fixed term (41,900), 1.1 percent seasonal (24,700), and 0.5 percent employed through a "temporary agency" (10,400). The proportion reporting they were permanent was up from 90.9 percent (1,952,900) three months before and from 90.7 percent (1,898,500) a year before. Women were slightly less likely to be permanent employees: 90.3 percent of women were permanent compared to 92.7 percent of men. Instead, women were more likely to be casual (5.3 percent of them compared to 3.5 percent of men) or fixed term (2.6 percent of women compared to 1.3 percent of men). However more men were in seasonal work than women – 1.4 percent of men compared to 0.9 percent of women. Of the temp agency employees, 4,800 were men and 9,600 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. However, in the two years this data has been available the number and proportion of fixed term employees measured by this survey has fallen reasonably steadily, starting in June 2016 with 63,600 and in September 2018 down to 41,900. The number of Temporary Agency employees has increased in the same period from 6,600 to 10,400, but this has been a bumpy road so it is too early to say there is a trend.



- By **duration of employment (job tenure)**, in the September 2018 quarter, 23.7 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 33.7 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 16.2 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, 27.3 percent of men had been in their jobs for more than 10 years, but only 23.7 percent of women. Age is a significant factor as would be expected: 54.4 percent people aged 15 to 24 had been in their jobs for less than a year, and 30.7 percent of 25-34 year olds, but only 14.7 percent of 45-54 year olds and 10.3 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 2018 there were 134,048 working age people on the Jobseeker benefit, 11,007 more than a year before and 4,405 more than three months before. At that time, 74,107 were classified as 'Work Ready', and 59,941 were classified as 'Health Condition or Disability'. A total of 299,345 were on 'main' benefits, 9,557 more than a year before, with decreases in those on Sole Parent Support benefits (down 808), Supported Living Payments (down 335) and Other Main Benefits (down 307) partially counteracting the increase in Jobseeker benefits. There were 15,030 more on main benefits than three months earlier, mainly because of the seasonal rise in "Jobseeker Support Student Hardship" benefits, which rose to 8,934 at the end of December (similar to the 8,940 at the same time last year), but also boosted by an additional 4,405 on Jobseeker benefits. Of the 35,710 benefits cancelled during the three months to December, 16,604 or 46.5 percent of the people obtained work, 15.3 percent transferred to another benefit and 1.6 percent became full time students. A further 2,209 (6.2 percent) left on their 52 week reapplication or annual review. A total of 8,536 suffered sanctions (down 42.2 percent on a year before), the majority (7,334) on a Jobseeker benefit. Of the people sanctioned, 44.7 percent were Māori, though only 36.4 percent of working-age benefit recipients were Māori.

- Job Vacancies Online for the three months to September 2018 showed the seasonally adjusted number of job vacancies rose by 1.9 percent in the quarter and rose 8.4 percent over the same quarter a year previously. All the following are seasonally adjusted, though it should be borne in mind that many jobs are still filled by word of mouth, social networks and through recruitment agencies rather than the job advertisements surveyed for these statistics. Over the quarter, highly skilled vacancies rose 2.8 percent while semi-skilled vacancies rose 0.9 percent and unskilled vacancies rose 0.9 percent, but over the year, highly skilled vacancies rose 12.2 percent while semi-skilled vacancies rose 1.8 percent and unskilled vacancies rose 8.8 percent. Over the quarter, vacancies in Gisborne/Hawke's Bay were up 7.0 percent, Northland up 5.5 percent, Manawatu-Whanganui/Taranaki up 4.6 percent, Wellington up 4.1 percent, Waikato up 2.8 percent, Auckland up 2.2 percent, Bay of Plenty up 2.2 percent, Otago/Southland up 1.9 percent, Marlborough/Nelson-Tasman/West Coast up 1.8 percent, and Canterbury was down 2.1 percent. By industry for the quarter, vacancies rose fastest in Health Care and Medical (up 6 percent), and Primary Industries (up 3.8 percent), while they rose slowest in Construction and Engineering (down 0.2 percent) and Sales, Retail, Marketing and Advertising (down 0.1 percent). There was a similar pattern over the year with Health Care and Medical up 32.9 percent, and Primary Industries up 11.2 percent, though Information Technology outpaced Primary Industries, with vacancies growing 14.1 percent. Construction and Engineering vacancies grew only 0.9 percent over the year. By occupation, Professionals' vacancies grew fastest over the quarter at 2.3 percent, followed by Machinery

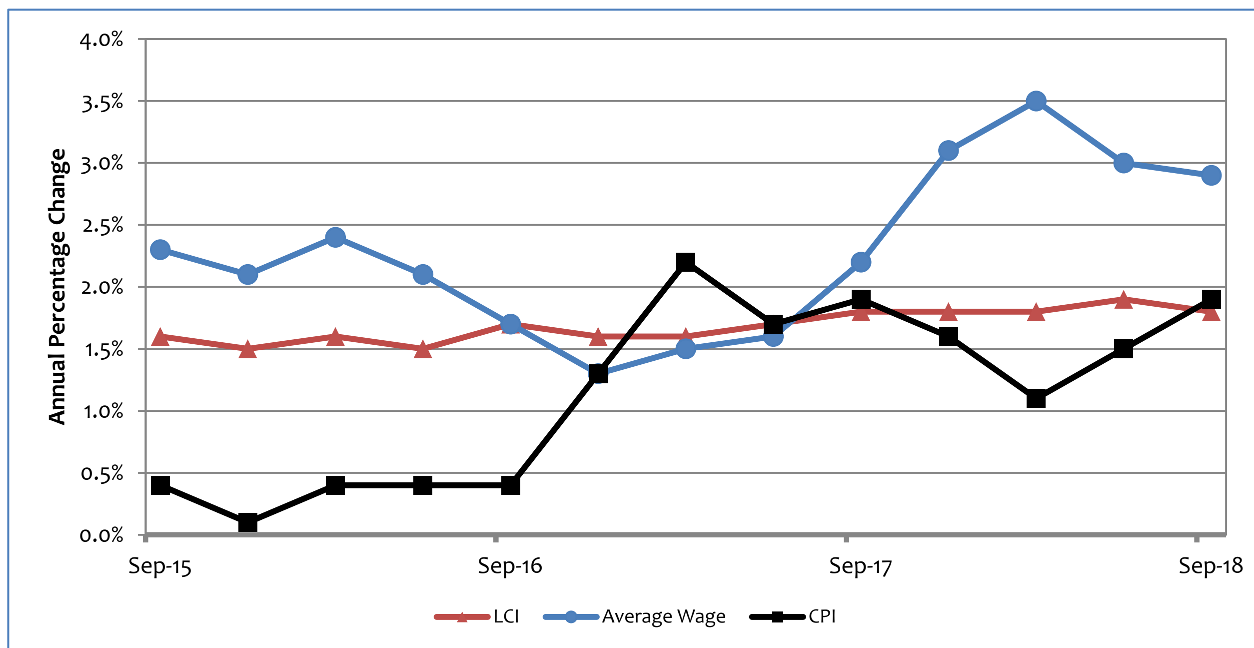
Operators and Drivers at 2.0 percent, while Sales vacancies fell 1.1 percent, as did Technicians and Trades, Community and Personal Services, and Managers. Over the year, the fastest growing vacancies were for Labourers (11.8 percent increase), followed by Professionals (9.6 percent), with Sales growing only 1.6 percent.

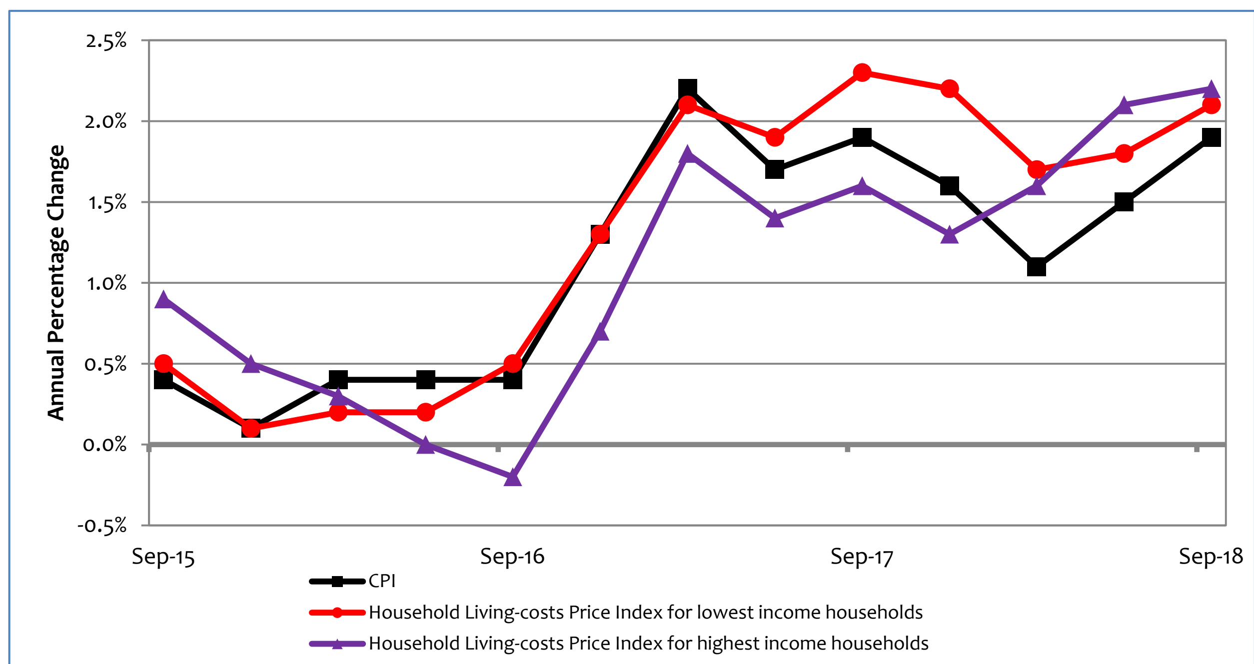
★ International Migration

As from November 2018, permanent and long term migration is being estimated in a significantly different way by Statistics New Zealand. Previously it was based on intentions shown on arrival and departure cards filled in as people crossed our borders. Now they are based on observed behaviour: they are classed as permanent arrivals or departures if they stay in New Zealand (or abroad, respectively) for at least 12 of the next 16 months. Recent data is therefore provisional for 17 months. Net arrivals (that is, arrivals less departures) calculated by this method are sometimes higher, sometimes lower than under the "intentions based" method, but it appears that both arrivals and departures are higher under the new methodology. Differences between numbers collected under the old and new method are therefore not meaningful in showing changes in migration movements. For example, the old method estimated an actual net gain of 61,751 migrants in the year to October 2018, but the new method provisionally estimates net immigration of 45,208 for the same period – over 16,500 fewer. Some previously available data is not yet available under the new methodology. These revisions will affect population estimates, and eventually other statistics such as employment and productivity.

There were a provisionally estimated 13,100 permanent and long-term arrivals to New Zealand in November 2018 and 10,620 departures in seasonally adjusted terms, a net gain of 2,480 which was significantly lower than the 3,500 estimated for the previous month. There was a seasonally adjusted net loss of 1,360 New Zealand citizens, compared to a loss of 1,030 the previous month, and a net gain of 3,840 other citizens, compared to 4,530 the month before. There was an actual net gain of 43,416 migrants in the year to November, down from 53,831 in the year to November 2017. In November, 9.2 percent of the arrivals had residence visas, 9.8 percent student visas, 21.6 percent work visas, and 25.2 percent visitors. A further 32.9 percent were New Zealand or Australian citizens. (These show significantly different proportions than under the old methodology. While there is no great change in the proportion arriving on Residence visas, a small fall in the proportion on Student visas and a small rise in the proportion who are Australian or New Zealand citizens, a much greater proportion are arriving on Visitor visas – and a much smaller proportion arriving on Work visas.)

Wages and prices





- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to September 2018 and increased 1.8 percent in the year. The annual increase was less than the 1.9 percent increase in the CPI and partly reflects the fact that the Care and Support Workers' pay equity increase from 1 July last year has now dropped out of the annual increase, though the minimum wage increase from 1 April 2018 will still be having an influence. The LCI increased 0.5 percent in the public sector and 0.5 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, 47 percent of jobs surveyed did not receive a pay rise, and 48 percent of private sector jobs got no rise. For the 53 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.6 percent and the average increase was 3.8 percent. For those jobs in the public sector that received increases during the year, the median increase was 2.3

percent and in the private sector 2.8 percent; the average increase in the public sector was 2.9 percent and in the private sector 4.0 percent. We estimate that over the year, jobs on collective employment agreements were 2.1 times as likely to get a pay rise as those which were not, and were more likely to get a pay rise of any size ranging from less than 2 percent to over 5 percent. Only 48 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 that 99 percent of those on a collective stating pay rates got a pay rise in the year to June 2018.

- The Quarterly Employment Survey for the three months to September 2018 found the average hourly wage for ordinary-time work was $31.34, up 1.1 percent on the previous quarter and up 2.9 percent over the year, significantly more than the 1.9 percent rise in the CPI. Female workers (at $29.25) earned 11.7 percent less than male workers (at $33.13) for ordinary time hourly earnings. This pay deficit has fallen from 13.0 percent two years ago in September 2016. The average ordinary-time wage was $29.38 in the private sector, up 1.4 percent in the quarter and 3.6 percent in the year. In the public sector the average ordinary-time wage was $39.31 which was up 0.7 percent in the quarter and up 1.6 percent in the year. Average total hourly wages (including overtime) ranged from $20.30 in Accommodation and food services and $22.23 in Retail trade, to $43.99 in Finance and insurance services, and $40.14 in Information, media and telecommunications. In Accommodation and food services, 55.6 percent of employee jobs were part time, and in Health care and social assistance 43.4 percent were part time; in Retail trade 39.6 percent were part time; 35.7 percent were also part time in Arts, recreation and other services, 25.3 percent in Professional, scientific, technical, administration and support services, and 33.8 percent in Education and training. Together these six industries made up 81.2 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 2018 quarter compared with the September 2018 quarter. It rose 0.4 percent in seasonally adjusted terms. It increased 1.9 percent in the year to December, the same as in the year to September. For the quarter, the largest single upward influence was Recreation and Culture, which rose 2.5 percent, almost half of which came from a 5.3 percent rise in Accommodation services (including overseas accommodation prepaid in New Zealand). Next came Transport which rose 1.1 percent, despite petrol falling 0.6 percent, driven mainly by a 7.1 percent increase in Passenger transport services, particularly a 13.8 percent rise in Road passenger transport and a 7.6 percent rise in international air transport. Housing and household utilities (up 0.5 percent) continued to be a significant factor, mainly due to rising rents (up 0.6 percent) and the cost of new housing (up 0.9 percent, though it varied from 0.5 percent in Canterbury and Auckland to 1.4 percent in Wellington). Increases in housing costs also came from a further increase of 2.3 percent in house insurance and 1.1 percent in contents insurance over the quarter, though mortgage interest rates (not in the CPI) continue to fall – by 0.8 percent (note – not 0.8 percentage points) in the quarter according Statistics New Zealand. There were also some significant negative contributions bringing down the rise in the overall index. Food prices fell 1.3 percent, led by a 20.7 percent fall in vegetable prices which more than offset by Meat and poultry (up 3.2 percent) and Fish and other seafood (up 1.7 percent). The fall in food prices almost cancelled out the rise in housing and transport prices in the index. There were also significant falls in Alcoholic beverages and tobacco (down 1.4 percent), clothing and footwear (down 1.2 percent), and Household contents and services (down 0.8 percent). Over the year, Housing and household utilities and Transport were the two largest contributors to the rise, responsible for 39.8 percent and 26.6

percent of the rise respectively. In Housing and household utilities, which rose 3.1 percent overall, rents rose 2.4 percent, purchase of new housing rose 3.6 percent, property maintenance rose 3.2 percent, property rates and related services rose 4.6 percent, and household energy rose 2.3 percent. In addition, house insurance rose 15.2 percent and contents insurance rose 3.3 percent. In Transport, which rose 3.5 percent overall, most of the pain came from petrol, up 11.1 percent and other vehicle fuels and lubricants, up 20.5 percent. Meanwhile vehicle insurance rose 7.2 percent. Rents rose fastest in Wellington (up 4.0 percent for the year) and slowest in Canterbury (up 0.8 percent for the year). In seasonally adjusted terms, the CPI rose 0.4 percent over the last three months, Food rose 0.5 percent, Alcoholic beverages and tobacco rose 0.3 percent, Clothing and footwear fell 0.9 percent, Housing and household utilities rose 0.7 percent, Communications rose 0.3 percent, Recreation and culture rose 1.6 percent, and Education rose 0.5 percent. Over the year, in Auckland consumer prices rose 1.8 percent, in Wellington they rose 1.5 percent and they rose 2.2 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 1.8 percent and prices rose 2.0 percent in the rest of the South Island.

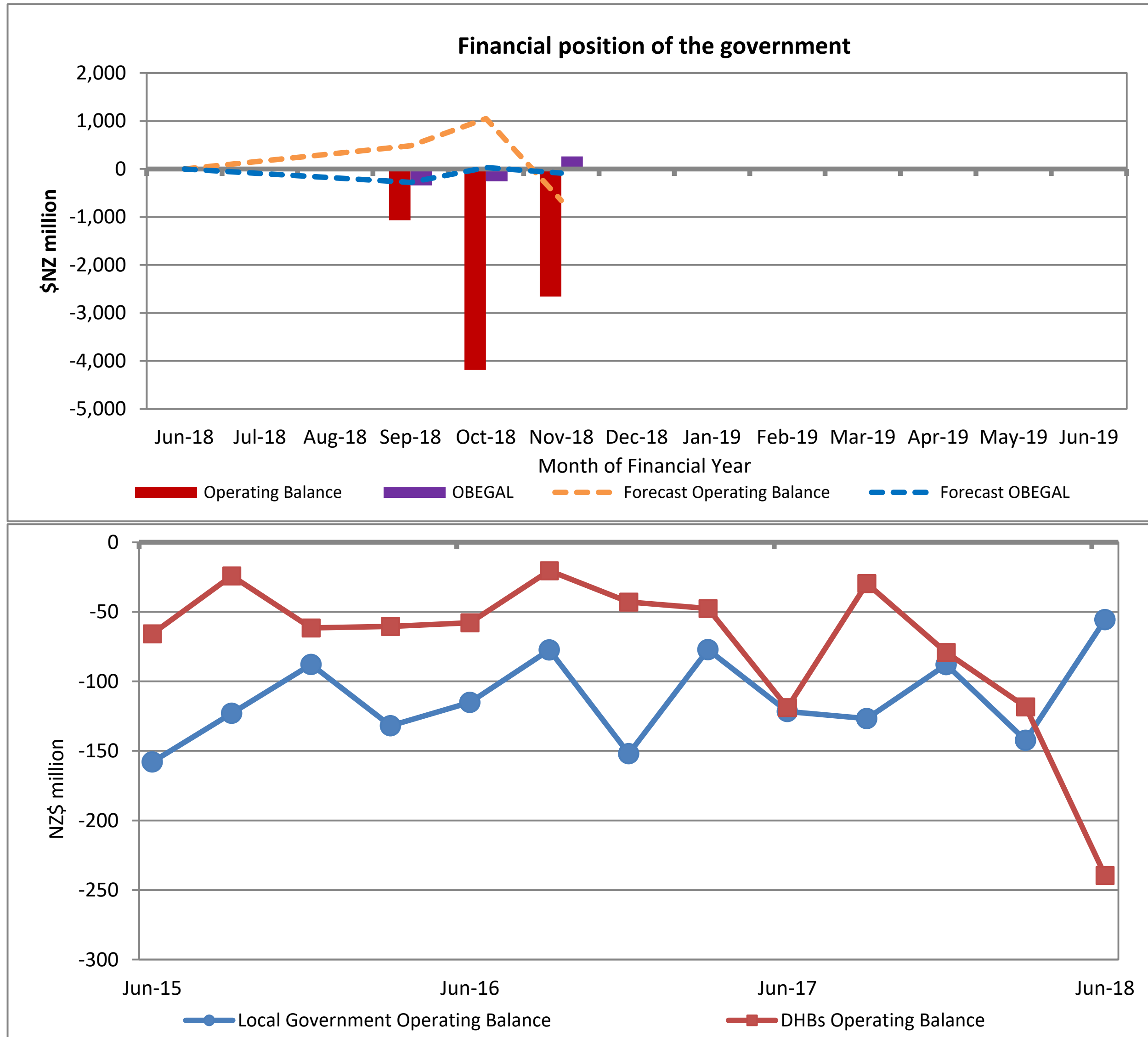
- The Household Living-costs Price Indexes (HLPIs) for the year to September 2018 again, like in the June year, showed lower income households experiencing (slightly) slower price rises than higher income households over the year, though they experienced higher cost rises in the latest three months, which is the normal pattern. By income, the lowest income households saw their living costs rise 2.1 percent over the year while the highest income households living costs rose 2.2 percent. However, by expenditure, the lowest spending households saw their living costs rise 2.2 percent over the year while prices for the highest spending households rose 1.9 percent. The difference in cost increases occurs because different households spend their money on different things. For example, prices for the necessities of housing and food dominate low income households' spending: 54.5 percent of the expenditure of the lowest income one-fifth (quintile) of households went on Food and Housing and household utilities in 2018, compared to being only 32.7 percent of the expenditure of the highest income one-fifth. Over the year, the All households HLPI index rose 2.2 percent, the Beneficiary households index rose 2.4 percent, the Māori households index rose 2.4 percent, and the Superannuitant households index rose 2.2 percent. By income quintile, the index for the lowest income households (quintile 1) rose 2.1 percent, quintile 2 rose 2.1 percent, quintile 3 rose 2.2 percent, quintile 4 rose 2.4 percent, and quintile 5 (the highest income) rose 2.2 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 2.2 percent, quintile 2 rose 2.4 percent, quintile 3 rose 2.3 percent, quintile 4 rose 2.2 percent, and quintile 5 rose 1.9 percent. Over the September quarter, the All households HLPI index rose 0.9 percent, the Beneficiary households index rose 0.8 percent, the Māori households index rose 0.9 percent, and the Superannuitant households index rose 1.2 percent. By income quintile, over the quarter the index for the lowest income households (quintile 1) rose 1.0 percent, quintile 2 rose 0.9 percent, quintile 3 rose 0.9 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.8 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 1.0 percent, quintile 2 rose 1.0 percent, quintile 3 rose 0.9 percent, quintile 4 rose 0.8 percent, and quintile 5 rose 0.7 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 fell 0.2 percent in the month of December 2018 and rose 0.5 percent in seasonally adjusted terms. Food prices rose 1.0 percent in the year to December 2018. Compared

with the previous month, fruit and vegetable prices fell 1.1 percent (and were down 0.6 percent seasonally adjusted); meat, poultry, and fish rose 0.2 percent; grocery food prices rose 0.1 percent (and rose 0.5 percent when seasonally adjusted); non-alcoholic beverage prices fell 2.6 percent; and restaurant meals and ready-to-eat food prices rose 0.2 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 five months to 30 November 2018, core Crown tax revenue was $141 million (0.4 percent) higher than forecast in the December 2018 Half Year Economic and Fiscal Update (HYEFU 18). Corporate tax revenue was $0.1 billion (1.7 percent) below forecast, while PAYE was $0.1 billion or 0.8 percent above forecast due to "higher than forecast aggregate employees' compensation"; and GST was $0.2 billion or 1.7 percent above forecast, though is expected to reverse because of timing differences. Overall core Crown revenue was $61 million or 0.2 percent above forecast. Core Crown expenses were $409 million (1.1 percent) above forecast. The resulting $261 million surplus in the Operating Balance before Gains and Losses (OBEGAL) was $349 million more than forecast and the Operating Balance, a $2.7 billion deficit, was $2.0 billion below the forecast $0.7 billion surplus. This was "largely due to

unfavourable changes in exchange rates since the forecasts were prepared" which caused net investment losses of $0.8 billion where gains of $2.9 billion were forecast. Net debt at 21.3 percent of GDP ($62.0 billion) was $0.4 billion higher than forecast. Gross debt at $88.2 billion (30.3 percent of GDP) was $0.5 billion lower than forecast. The Crown's net worth in financial terms was $2.1 billion lower than forecast at $127.5 billion. Note that the above debt figures are for the Core Crown; total debt was $114.2 billion, $1.9 billion lower than forecast.

- District Health Boards had more full time equivalent staff than planned at the end of June 2018 (99 more: 64,611 compared to 64,812 planned) for the first time in many years. Medical Personnel (doctors) were 151 more than planned and Nursing Personnel were 549 more than planned, but these were offset by shortfalls in Allied Health Personnel (382 short), Management/Administration staff (164 short), and Support Personnel (54 short). Average costs per full time equivalent staff were very close to plan ($96,134 compared to $95,850) with only Medical Personnel costs under plan. The DHBs had accumulated combined deficits of $239.5 million in the twelve months to June (an unaudited full year). This is $96.0 million worse than their plans. The Funder arms were in surplus by $120.9 million, $50.9 million more than the $70.1 million surplus planned, and Provider arms (largely their hospitals) in deficit by $370.2 million, $153.4 million worse than planned. The Northern region was $1.1 million behind plan with a deficit of $29.6 million and two of the four DHBs in deficit. The Midland region was $48.7 million behind plan with a deficit of $67.2 million and all of the five DHBs in deficit including Waikato whose deficit was $37.5 million. Central region was $24.1million behind plan, a combined $54.5 million deficit and all of the six DHBs in deficit. The Southern Region was $22.0 million behind plan with a $88.2 million deficit and three of the five DHBs in deficit, with Canterbury showing a $64.0 million deficit and Southern $21.4 million. In all, just four of the 20 DHBs were in surplus and five were ahead of plan. The DHB furthest ahead of plan was Capital and Coast by $2.8 million though with a deficit of $18.2 million, and Canterbury was furthest behind, by $10.3 million with a deficit of $64.0 million. Capital expenditure across all DHBs was $188.5 million behind plan with $382.7 million spent out of $571.2 million planned.

- ★ Local Government in the September 2018 quarter recorded a 2.1 percent ($54.9 million) rise in operating income in seasonally adjusted terms and a 2.1 percent rise in operating expenditure ($55.9 million) including a 1.1 percent rise in employee costs (up $6.4 million) compared to the previous quarter. This resulted in an operating deficit of $48.0 million in the quarter, compared with a deficit of $46.9 million in the previous quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010. Note that the latest quarter results are provisional and all are seasonally adjusted figures which are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin206.

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