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Commentary

Could we have a people-friendly globalisation?

Summary

With the Transpacific Partnership Agreement (TPPA) in its death throes, it is time to think about what a good alternative – and what people-friendly globalisation – would look like.

At the heart of public concerns, whether it is about the impact of these agreements on medicine prices, public health, labour rights, the environment, privacy, the power of overseas investors, migration (less so in New Zealand), food standards, or inequality, is the same debate we constantly have at a national level over different objectives and priorities.

Yet the international agreements are products of the neoliberal framework which is now widely accepted to have failed economically, socially and environmentally. The agreements have extended hugely in scope beyond trade, and their objectives have changed from an arguable basis of maximising economic welfare to a much more extensive one that maximises the most powerful player's commercial advantage. Their central principles make economic activity primary, rather than wellbeing such as improving living standards, health, human rights, fairness and a clean environment. Aspects of wellbeing (and only some) are recognised only as 'exceptions' to the rules that prioritise increased economic activity.

The normal political debate over priorities is turned on its head in a way that serves corporate interests rather than social, environmental and broader economic interests. This form of globalisation – called "hyperglobalisation" by Harvard economist Dani Rodrik because it is so extreme – is incompatible with a sovereign nation state and democracy, and makes it very difficult for social democracy to flourish. Other forms of globalisation are possible.

I suggest that what we should seek as far as possible is consistency between our aims at home and our international aims. Wellbeing should be primary. Agreements should recognise as primary the right of each nation to make rules in its citizens' interests in certain essential areas. An example is in areas fundamental to their wellbeing including health, education, safety, environment, conservation, culture, human (including labour) rights, and actions it considers necessary to address disadvantage of social groups, inequalities of income and wealth, and inequalities of outcomes.

Within those limits, intentional trade barriers can then be reduced. The process of developing these agreements should be as similar as possible to the development of domestic legislation, with much greater openness and public consultation.

With the Transpacific Partnership Agreement (TPPA) in its death throes, it is time to think about what a good alternative – and what people-friendly globalisation – would look like. It is not simply taking the same model and adding on a few weak labour and environment chapters as the TPPA did. The whole framework needs to be changed.

The TPPA failed not just because Trump withdrew. There was a huge international movement against it (per capita, probably few stronger than in New Zealand). All credible candidates for the US presidency opposed it. The European Union-US equivalent, the Trans-Atlantic Trade and Investment Partnership (TTIP) is in a similar state due to widespread popular opposition, particularly in Europe.

Clearly we have reached a watershed in the development of such agreements.

Despite this, there are many governments still in denial. The New Zealand government as much as any has its head in the sand. The Minister of Trade is using the weakest of political excuses – that the New Zealand public just didn't understand. All that was needed was more pro-TPPA roadshows and more business support. The Government is now frantically looking for ways to revive the TPPA in some form: a meeting is taking place in Chile on 14, 15 March to search for options, any of which will require substantial renegotiation. It is in various stages of negotiation for a raft of new agreements in the same model: the Trade in Services Agreement (TISA), Regional Closer Economic Partnership (RCEP), India, PACER Plus, the European Union, and Sri Lanka (the latest suggestion). It has asked to join the Pacific Alliance, an agreement between Mexico, Colombia, Peru and Chile. There are likely to be proposals for bilateral agreements with the US and Mexico.

Wouldn't it be more sensible to press the pause button and ask why there is such growing opposition internationally, and how the nature of these agreements should be changed to address these concerns?

Here, I offer some ideas as to what a more progressive path would look like. I welcome comment.

What is the problem?

At the heart of public concerns, whether it is about the impact of these agreements on medicine prices, public health, labour rights, the environment, privacy, the power of overseas investors, migration (less so in New Zealand), food standards, or inequality, is the same debate we constantly have at a national level over the tensions between different objectives and priorities.

We want more and better jobs and incomes (a 'growing economy') but that can conflict with environmental protection and the limits to resources. Capitalism can help by being dynamic and (sometimes) innovative – but it can also suppress people's needs such as their rights at work, good jobs and a healthy and safe environment. Rapid growth in firms may be easier in the short run when they don't have to take account of the impacts of their decisions – whether internally such as the fair treatment and safety of their employees, or externally such as the impact of their activities on people's health and the resources they consume – but we value those outcomes just as we value the goods and services produced by firms. The rules made to ensure good outcomes in the face of these conflicts frequently come up against the economic interests of those who think they can make more money with less rules, which leads to conflicts between democratic rights and commercial power. The list goes on, covering matters such as containing the growth of international debt, the development of higher value, better paying industries, and avoiding financial crises. We have institutions that are set up (not always effectively) to debate and decide among these conflicting priorities: elections, parliament, local government, government agencies, the court system, media, unions.

There are very different frameworks for weighing these conflicts and tensions. To oversimplify three of them: neoliberalism is the idea that, left to itself with just enough intervention to make sure it works efficiently, the 'market' will resolve such conflicts in everyone's best interests as long as government keeps out of the way. It has little way to handle matters such as fairness, income inequality or ‘immeasurables’ such as a pleasant environment to live in. Social democracy accepts capitalism as the basis for the economy but sees a strong role for government as necessary to ensure fair and sustainable economic, social and environmental outcomes. Socialism wants to replace capitalism, which it sees as inherently in conflict with the interests of working people and a healthy environment, with a democratically-controlled economic system.

It is now widely accepted that neoliberalism, which became the dominant framework in New Zealand with the 1984 Labour Government, has failed economically, socially and environmentally. The Global Financial Crisis starting in 2008 was a body blow to many of its assumptions, and politically the huge growth in inequality internationally, particularly in the US has highlighted its social failings. It is unable to provide a solution to global threats such as climate change. It is not clear what will replace it as the dominant ideology or framework.

Yet the international agreements are products of the neoliberal framework. Early agreements such as the General Agreement on Tariffs and Trade (GATT) dealt only with international goods trade and were much more limited in their impact on domestic laws and regulations. While imperfect, they accepted a compromise between freeing up international commerce and protecting the interests of individual nations. However, starting with its 1995 expansion, the raft of treaties administered by the World Trade Organisation, agreements became increasingly intrusive, dealing with services, ‘technical’ food and safety standards, qualifications, foreign investment, movement of people for work, intellectual property, and expanding into regulatory standards and state-owned enterprises. They developed new judicial systems with their own tribunals to decide disputes, outside the jurisdiction of individual nations.

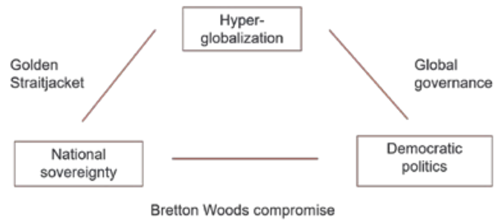
Initially there was a rational economic basis for these agreements. Increased trade is in general a good thing. It allows countries to expand in the areas they are most efficient in (comparative advantage) and for small countries like New Zealand, allows firms to grow far beyond what the domestic market would allow and obtain efficiencies of scale. There needs to be provision for growing new industries outside the heat of international competition, and protection from the introduction of pests and diseases but in general the argument is sound. A similar rationale is used for ‘trade’ in services – but given they include essentials like health and education, and sensitive cultural areas like the arts, videos, music, news media and broadcasting, and that much of this ‘trade’ is really investment or movement of people across borders, it is a gross oversimplification. Services also include finance whose deregulation creates enormous risks, played out in the GFC.

It gets even more difficult when investment and movement of people are concerned: huge issues of social sensitivities, quality and power come into play. The private international tribunals being set up to protect investors’ interests against national governments (ISDS) privilege investors with little evidence of public benefit and grave risks to the public interest.

Even some neoliberals would agree that an economic argument for extending intellectual property rights in the way that the TPPA proposed does not exist. The ‘rationale’ is win-lose: the big media and pharmaceutical companies of the US wanted commercial advantage at the expense of the rest.

The objectives of these agreements have changed from an arguable basis of maximising economic welfare to one of maximising the most powerful player’s commercial advantage.

There are other problems. The central principles of these agreements seek to minimise regulation in favour of increased economic activity in the form of international trade and investment. This mistakes a means (economic activity) for wellbeing and better outcomes. Those outcomes are familiar in day to day political debate as described above: improving material living standards, better health, education, safety; a clean environment and conservation of scarce resources; respect for different cultures and strengthening of local culture and the arts; fairness in how these outcomes are shared. Rather than wellbeing being primary, aspects of wellbeing (and only some) are framed as 'exceptions' to the rules that aim to increase economic activity.



Pick two, any two

The normal political debate over priorities is turned on its head in a way that serves corporate interests rather than social, environmental and broader economic interests.

These upside down priorities are aggravated by the authoritarian process of negotiation of the agreements. With few exceptions, draft texts of agreements are secret to all but negotiators and privileged corporate representatives until signed and too late to change. If domestic legislation was enacted like this there would be an outcry.

How has this come about?

Globalisation

Those who criticise these agreements are frequently labelled 'anti-globalisation'. Globalisation is the increased integration of national economies through trade, investment, migration and international legislation such as the trade and investment agreements. In these days of Trump and Brexit where people are turning against these trends, there is an attempt to tar all with the same far-right brush. Those with a 'liberal' outlook are said to favour 'globalisation'.

But there are many possible models of globalisation. Harvard University Professor of International Political Economy Dani Rodrik who has written extensively on these subjects (for example, Rodrik, 2011) describes the current model as "hyperglobalisation" – globalisation taken to an extreme depth. He has proposed what he calls "The Political Trilemma of the World Economy" (Rodrik, 2007) – see the figure on the next page (from Rodrik, 2016). "It says that democracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full."

Why? We have seen that to get the deep economic integration of the current type of agreements increasingly means weakening domestic laws and regulation. It greatly reduces the space available for the nation state to regulate in its people's own interests. Rodrik says we have three choices:

1. Weaken or dispense with the nation state: If we want to maintain the current model of globalisation and deepen it further through agreements like the TPPA, the nation state must make its priority the enforcement of international integration. Meaningful democracy must therefore be at the global level. Given the difficulty that large federal states like the US, let alone looser confederations like the European Union have in conducting a working democracy (even little New Zealand finds it difficult at times), this is a dangerous pipe dream.

2. Weaken or dispense with democracy: If we want to maintain the nation state with its power to regulate and also have hyperglobalisation we must weaken or dispense with democracy because the state will frequently not have freedom to do what the electorate wants. It will tend towards authoritarian rule. As we see in recent developments, this tendency is the status quo.
3. Weaken globalisation: If we want to maintain the power of the nation state to regulate in the interests of its citizens and also have democratic politics, globalisation must be more limited. Rodrik gives as an example the Breton Woods regime from WWII to the early 1970s.

I unashamedly choose a working democracy: option 3. The point of this is certainly not to advocate closing up the borders. That would be daft. The point is that the current intense model of globalisation – hyperglobalisation – must be reformed to make it friendly to democracy within nation states.

A framework for international agreements

In this, I take a social democratic perspective. Those who take a neoliberal perspective have little problem with the current framework. I suggest that what we should seek as far as possible is consistency between our aims at home and our international aims. Why should international agreements be an exception to our aims for social justice and environmental sustainability? However hyperglobalisation makes it very difficult for social democracy to flourish.

Some impacts of globalisation are not due to international agreements – for example the falling costs of international transport and telecommunications make it harder for a nation state to regulate its own territory. But that should not be exaggerated. Some of these results – such as tax dodging – can be addressed with international cooperation, which is increasingly occurring though too slowly.

A framework for international agreements that allow democracy to flourish and preserve sufficient room for governments to make meaningful decisions within the nation state could look like this:

- Recognise the right of each nation to legislate, regulate and administer in its citizens' interests in areas fundamental to their wellbeing including: health, education, safety, environment, conservation, culture, human (including labour) rights, and actions it considers necessary to address disadvantage of social groups, inequalities of income and wealth, and inequalities of outcomes. There are international treaties and conventions which set accepted standards in many of these areas which could provide an underpinning.
- Recognise the right of each nation to regulate the movement of people and capital according to its own needs and to adjudicate disputes, as long as actions do not breach human rights.
- Recognise the right of each nation to determine which services should be provided as public services, by whom and under what conditions.
- Recognise that each nation has economic development needs. These may require time-limited exceptions to open borders in order to build industries that provide better jobs and address economic imbalances. The time required for developing countries will be considerably longer than for advanced economies, and the exceptions broader, but even advanced economies will need exceptions to restructure. Also recognise the need for protection from commercial, social and environmental dumping of goods and services below cost (including externalised costs).
- Recognise the need of each nation to take actions for economic, social and physical security, including the ability to take action to prevent financial and balance of payments crises, to

address their effects if they occur, to maintain currency stability, and conduct an effective monetary policy.

- Recognise the sovereignty of each nation in its taxation policies. Negotiate agreements committing to cooperation to prevent tax avoidance and to desist from competitive use of taxation to attract investment.
- Subject to these constraints, which are primary, negotiate progressive reductions in intentional barriers to trade.
- The process of developing agreements should be as similar as possible to developing domestic legislation with widespread consultation while changes can still be made, and whenever possible, publicly available draft texts. The latter could be addressed in a number of ways including making available drafts after they have been tabled in negotiations unless there is a specific justifiable reason for withholding them (as the European Ombudsman recommended), and having pauses in negotiations at regular intervals (e.g. annually) when the text to date is made available for public debate. Final decisions on ratification of agreements should be by Parliament after an independent evaluation of the economic, social and environment impact.

While this is described in the context of trade and investment, in fact at this stage of hyperglobalisation, the economic returns from these such agreements are tiny and uncertain as economic evaluations illustrated, flawed as they were. There may be substantially greater returns (some economic, some social or environmental) to negotiating taxation agreements to prevent the robbery of government revenue, strengthening cooperation in areas such as climate change and research, and strengthening international human rights and environmental regimes.

Speaking from a European perspective, Austrian development economist Werner Raza has suggested that “In certain areas, a partial de-globalization and re-regionalisation of economic activities, respectively, for instance in the financial sector, in agriculture or with respect to public services seems warranted” (Raza, 2017). In finance, aspects of de-globalisation are urgently required to prevent the rapid spread of crises and help stabilise exchange rates at more realistic values. Agriculture has always been a difficult area given New Zealand’s interests in agriculture exports and the desire of other countries to protect food security and agriculture-based social and environmental values. That does not mean New Zealand exporters need to give up ambition to extend markets: growing incomes will increase demand. They do need to recognise there are environmental limits to expansion. But it does emphasise what we saw in the TPPA: that even relatively small openings in new agricultural markets come at an increasing cost to the rest of New Zealand in national sovereignty and democracy.

Bill Rosenberg

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Information

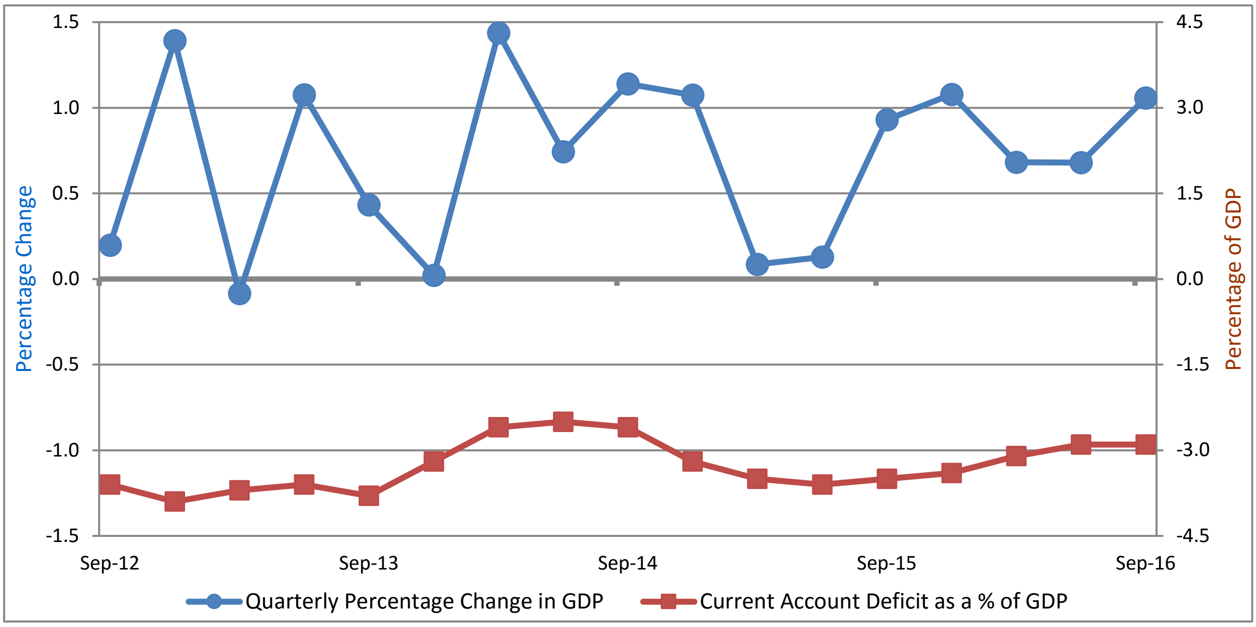
A ★ indicates information that has been updated since the last bulletin.

Forecast

- This NZIER consensus forecast was released on 12 December 2016.

Annual Percentage Change (March Year)	**2016-17**	**2017-18**	**2018-19**	**2019-20**
GDP	3.5	3.3	2.9	2.4
CPI	1.4	1.8	2.0	1.9
Private Sector average wage	2.0	2.5	2.9	2.9
Employment	4.8	2.3	1.8	1.4
Unemployment rate (% of labour force)	4.8	4.6	4.6	4.7

Economy



- Growth in New Zealand's economy continued steadily in the September 2016 quarter, with Gross Domestic Product rising by 1.1 percent, compared to a revised 0.7 percent in both the June and March quarters. Average growth for the year ended September 2016 was 3.0 percent (and 3.5 percent increase between September quarters). However GDP is barely keeping up with the rapidly growing population: GDP per person grew only 0.6 percent in the September quarter, and 0.9 percent over the 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 by only 0.6 percent over the September quarter and rose only 1.0 percent over the year to September. I estimate[1] that production per hour worked in the economy fell by 1.6 percent compared to the same period last year and fell 0.2 percent in the June quarter, indicating falling productivity which is bad for future wage growth. Business investment growth in the three months (0.2 percent) was a sharp reduction compared to the June quarter's growth (1.2 percent) and much slower than GDP growth. Investment in housing grew a slower 2.3 percent, not as strong as the 5.3 percent in the June quarter, but it grew very strongly at 14.0 percent from the same quarter last year. Household consumption growth was also strong, rising 1.6 percent in the quarter compared to 2.0 percent in the previous quarter and for the year up 5.4 percent. Inflation in the economy as a whole is weaker than CPI with the GDP deflator (a price index for expenditure on the economy's production) rising 0.3 percent in the September quarter and 0.0 percent in the June quarter, with a total rise of 0.6 percent for the year.

- By industry, the largest contributors to growth in the latest quarter were Transport, postal and warehousing (up 3.7 percent) and Professional, scientific, technical, administration, and support (up 2.0 percent) which together contributed 0.4 of the 1.1 percentage points rise in the quarter. However Construction continued its strong growth, rising 2.1 percent as did Arts, recreation and other services which rose 2.4 percent. Public administration and safety which covers much of

[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 using the historical relationship with hours paid from the more limited Quarterly Employment Survey.

central and local government rose a strong 1.7 percent. Manufacturing grew a little more than the whole economy at 1.2 percent boosted by Food, beverage, and tobacco manufacturing (up 1.6 percent), Transport equipment, machinery and equipment manufacturing (up 2.7 percent) and Wood and paper products manufacturing (up 2.5 percent) but offset by falls in Textile, leather, clothing, and footwear manufacturing (down 3.3 percent), Printing (down 2.1 percent) and Non-metallic Mineral Product Manufacturing (down 1.4 percent though following a quarter of rocketing growth of 11.2 percent in the previous quarter). Growth in housing-led manufacturing was much less evident such as in Non-metallic Mineral Product Manufacturing which includes glass, cement and concrete and other construction materials, and Furniture and other manufacturing (up only 0.2 percent after a huge 18.2 percent in the previous quarter). Other than in these manufacturing sub-sectors the only falls were in Agriculture whose production reduced by 1.6 percent (though Forestry and logging rose 10.0 percent), Electricity, gas, water, and waste services whose output fell 0.2 percent, and Information media and telecommunications which was down 1.1 percent. Compared to the same quarter in 2015, Construction was up a huge 12.3 percent, Retail trade and accommodation up 5.7 percent, Transport, postal, and warehousing up 4.7 percent, Professional, scientific, technical, administration, and support was also up 4.7 percent, and Arts, recreation, and other services were up 4.8 percent. However Mining production fell 10.0 percent.

- New Zealand recorded a Current Account deficit of $1.9 billion in seasonally adjusted terms for the September 2016 quarter (but an actual deficit of $4.9 billion) following a $1.8 billion deficit for the June 2016 quarter. There was another deficit in the goods trade ($686 million, seasonally adjusted, following a $496 million deficit in the June quarter, and in all quarters back to September 2014) and a surplus of $320 million in goods and services ($526 million in June), while the deficit on primary income (mainly payments to overseas investors) rose to $2.1 billion from $2.0 billion in June (not seasonally adjusted). For the year to September 2016, the current account deficit was $7.5 billion or 2.9 percent of GDP compared to a $7.4 billion deficit in the year to June (2.9 percent of GDP). The deficit on investment income was $8.1 billion for the year. During the year to March, foreign direct investors (those with a degree of control of the companies they hold shares in) were paid dividends at the rate of 10.6 percent after tax, compared to 11.8 percent the year before. By comparison they received a rate of return of only 2.6 percent after tax on debt owed to them by their companies. Portfolio investors received returns of 4.2 percent on shares and 2.0 percent on debt.

- The country's Net International Liabilities were $166.2 billion at the end of September 2016, up from $163.0 billion at the end of June and $153.2 billion a year before. The September net liabilities were equivalent to 64.9 percent of GDP, compared to 64.4 percent in June and 62.4 percent a year before. They would take 2.38 years of goods and services exports to pay off, up from 2.21 years a year before. The rise in liabilities was due to a large $5.3 billion net inflow of investment offset by $2.0 billion in valuation changes without which the net liabilities would have been $168.2 billion. New Zealand's international debt was $296.4 billion (115.7 percent of GDP), of which 29.2 percent is due within 12 months, compared to $145.3 billion in financial assets (other than shares; 56.7 percent of GDP), leaving a net debt of $151.1 billion (59.0 percent of GDP). Of the net debt, $10.9 billion was owed by the government including the Reserve Bank (equivalent to 4.3 percent of GDP and down from $11.2 billion in June) and $108.1 billion by the banks (42.2 percent of GDP), which owed $161.2 billion gross. Total insurance claims made on overseas reinsurers from the Canterbury earthquakes are estimated at $20.2 billion, and at 30 September 2016, $19.3 billion of these claims had been settled, leaving $0.9 billion outstanding.

★ Overseas Merchandise Trade for the month of January saw exports of goods rise 0.3 percent from the same month last year while imports rose 8.0 percent. This created a trade deficit for the month of $285 million or 7.3 percent of exports. There was a trade deficit for the year of $3.5 billion or 7.2 percent of exports, marginally lower than the 7.3 percent deficit in the year to the same month in 2015. In seasonally adjusted terms, exports rose 1.4 percent or $60 million over the month (compared to a 8.7 percent rise the previous month) led by rises in Meat (up 21.0 percent or $97 million), Crude oil (up 125.8 percent or $35 million, not seasonally adjusted), Fruit (up 4.5 percent or $11 million) and Seafood (up 3.1 percent or $4 million), offset by falls in Aluminium and Aluminium articles (down 19.5 percent or $18 million, not seasonally adjusted), Logs, wood and wood articles (down 4.0 percent or $13 million), Dairy products (down 0.5 percent or $5 million), and Wine (down 2.9 percent or $4 million). Seasonally adjusted imports rose 3.9 percent or $171 million over the previous month, creating a trade deficit of $357 million compared to a $245 million deficit in the previous month. The imports were led by rises in Petroleum and products (up 15.4 percent or $67 million, not seasonally adjusted), Electrical machinery and equipment (up 15.8 percent or $57 million) and Textiles (up 21.0 percent or $38 million), offset by a fall in Mechanical machinery and equipment (not seasonally adjusted, down 15.0 percent or $100 million).

★ The Performance of Manufacturing Index for January 2017 was 51.6, a fall from 54.2 in the previous month. The employment sub-index was at 51.5, also falling from 52.0 in the previous month.

★ The Performance of Services Index for January 2017 was 59.5, a rise from 58.5 in the previous month. The employment sub-index fell to 53.3 from 54.4 in the previous month.

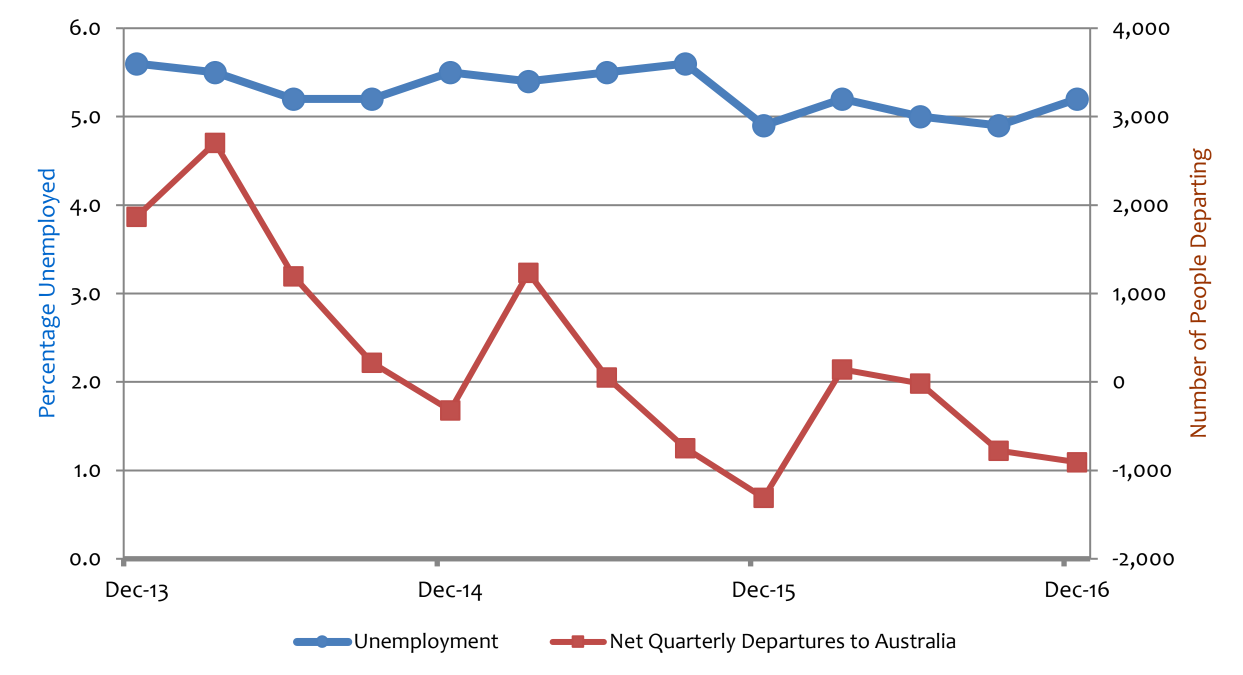
For these two indexes, a figure under 50 indicates falling activity, above 50 indicates growing activity. Previous figures are often revised and may differ from those in a previous Bulletin.

★ The Retail Trade Survey for the three months to December 2016 showed retail sales rose 3.9 percent by volume and 4.7 percent by value compared with the same quarter a year ago. They rose 0.6 percent by volume and 1.1 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Accommodation (up 4.0 percent), Pharmaceutical and other store-based retailing (up 3.1 percent), Motor vehicles and parts (up 2.7 percent), Furniture, floor coverings, houseware, textiles (up 2.4 percent), and Recreational goods (up 2.2 percent). There were falls in Non-store and commission retailing (which includes internet purchases) which was down 4.8 percent, and Clothing, footwear, and accessories (down 1.0 percent). Both also fell in volume. Supermarket and grocery stores, the largest single sector, rose just 0.1 percent by value (up $4 million) and fell 0.5 percent by volume.

★ On 9 February 2017 the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. It indicated 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, particularly in respect of the international outlook, and policy may need to adjust accordingly". It considered that the international outlook had improved with a recovery in commodity prices, but there was still much "geo-political" uncertainty and surplus capacity (high unemployment and underused production capacity) abroad. Both inflation and interest rates were increasing internationally. Long-term interest rates were rising in New Zealand too, and the exchange rate "remains higher than is sustainable for balanced growth and, together with low global inflation, continues to generate negative inflation in the tradables sector. A decline in the exchange rate is needed." Economic growth in New Zealand is based on "accommodative monetary policy, strong population growth, increased household spending and rising construction activity. Dairy prices have recovered in recent months but uncertainty remains around future outcomes." The Bank considered that house price rises had moderated, partly due to its loan-to-value ratio restrictions and rising interest rates, but was not sure that the moderation would be sustained because house building wasn't keeping up with demand. With CPI inflation at 1.3 percent in the year to December 2016, it was back in the Bank's target band, and the Bank considered it would rise steadily to 2 percent (forecasting this by mid-2019). The next OCR announcement will be on 23 March 2017.

★ According to REINZ, the national median house price rose $42,000 or 9.4 percent to $490,000 in the year to January 2017 and rose 0.2 percent from the previous month seasonally adjusted though fell 5.0 percent from $516,000 in actual prices. The Auckland median price rose 11.8 percent or $85,000 over the year to $805,000 and rose 2.4 percent seasonally adjusted and 4.2 percent in actual prices from $840,000 the previous month. Excluding Auckland the national median price rose $35,250 to $396,500 or 9.8 percent higher than a year before. It was down 5.6 percent or $23,500 on the previous month. Two regions had record median prices: Hawkes Bay ($366,000, up 15.5 percent over the year), and Nelson/Marlborough ($470,000, up 25.3 percent over the year). There was a rise from 423 to 456 in the number of sales in the $1 million plus range over the year and from 1,128 to 1,135 in the $600,000 to $1 million range. However sales below that price level fell steeply, with the 1,611 sold valued under $400,000 now only 37.4 percent of sales compared to 43.3 percent (2,187) a year ago, a 26.3 percent fall. Total sales were down 17.2 percent from 5,048 a year ago to 4,307 in January 2017.

Employment



Note: as described in the September 2016 Bulletin, the release reported on below of **Household Labour Force Survey** statistics on employment and unemployment reflects a major revision of the survey that took effect from June 2016. The changes include the measurement of unemployment, whose values have been revised back to 2007. Other employment statistics, including numbers employed and hours worked, cannot be accurately compared between June 2016 and previous months.

★ According to the Household Labour Force Survey (HLFS) the unemployment rate in the December 2016 quarter rose to 5.2 percent or 139,000 people, compared to 4.9 percent in September (129,000 people), seasonally adjusted. It is more than half as much again than the 3.3 percent it was in December 2007, which would mean 51,600 more people would have jobs. 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 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 343,900 people looking for work classed as “underutilised”, or 12.8 percent of the labour force extended to include these people. Of them, 115,200 were underemployed, 138,100 were officially unemployed, and 101,600 were additional jobless people looking for work (these figures are not seasonally adjusted). The 12.8 percent underutilisation rate is the same as a year before and considerably higher than in September 2007 when it was 8.8 percent. It is higher for women at 15.7 percent than for men (10.2 percent). Excluding the officially unemployed, the underutilisation rate is 7.8 percent. There are 45,100 unemployed people who have been out of work for more than 6 months. This is apparently a large increase from the 35,300 a year before but a change in the survey question could have contributed to this. This is 32.7 percent of the unemployed compared to 28.7 percent a year before, and has not been previously reached in a December quarter since 1999. Those out of work for more than a year are 11.6 percent of the unemployed compared to 11.3 percent a year before (again possibly affected by the changed survey question). Compared to OECD unemployment rates, New Zealand had 13th lowest (out of 34 countries), compared to 10th in September.

- The number recorded as employed rose by 19,000 between the September and December 2016 quarters (seasonally adjusted). The recorded employment rate rose from 66.7 percent to 66.9 percent over the three months. It was 61.6 percent for women and 72.4 percent for men. Similarly the participation rate (the proportion of the working age population either in jobs or officially unemployed) rose from 70.1 percent to 70.5 percent, all in seasonally adjusted terms.

- In the North Island, unemployment rates rose compared to a year ago in four out of the eight regions but only in Taranaki was the rise statistically significant (that is, for the other regions the error in the estimates of unemployment means it cannot be ruled out that the rises were in fact zero). In the North Island, Gisborne/Hawke's Bay has the worst unemployment rate at 8.1 percent while Northland, previously the worst, is now second at 7.3 percent. Bay of Plenty at 4.9 percent has the best (lowest). Auckland is at 5.1 percent (the same as a year before) and Wellington 5.6 percent (up from 5.3 percent a year before). The South Island looks considerably better, with Tasman/Nelson/Marlborough/West Coast at 4.1 percent (4.0 percent a year before), Canterbury at 3.7 percent (3.3 percent a year before), and Otago at 4.0 percent (4.2 a year before) and Southland at 5.0 percent (4.0 percent a year before).

- By industry, the increase in employment of 54,900 since the September quarter was made up of both gains and losses. The biggest gains were of 21,900 in Retail trade, accommodation and food services, and 17,100 both in Construction and in Professional, scientific, technical, administrative, and support services. The biggest loss was 30,300 among people with no industry specified. These are not seasonally adjusted.

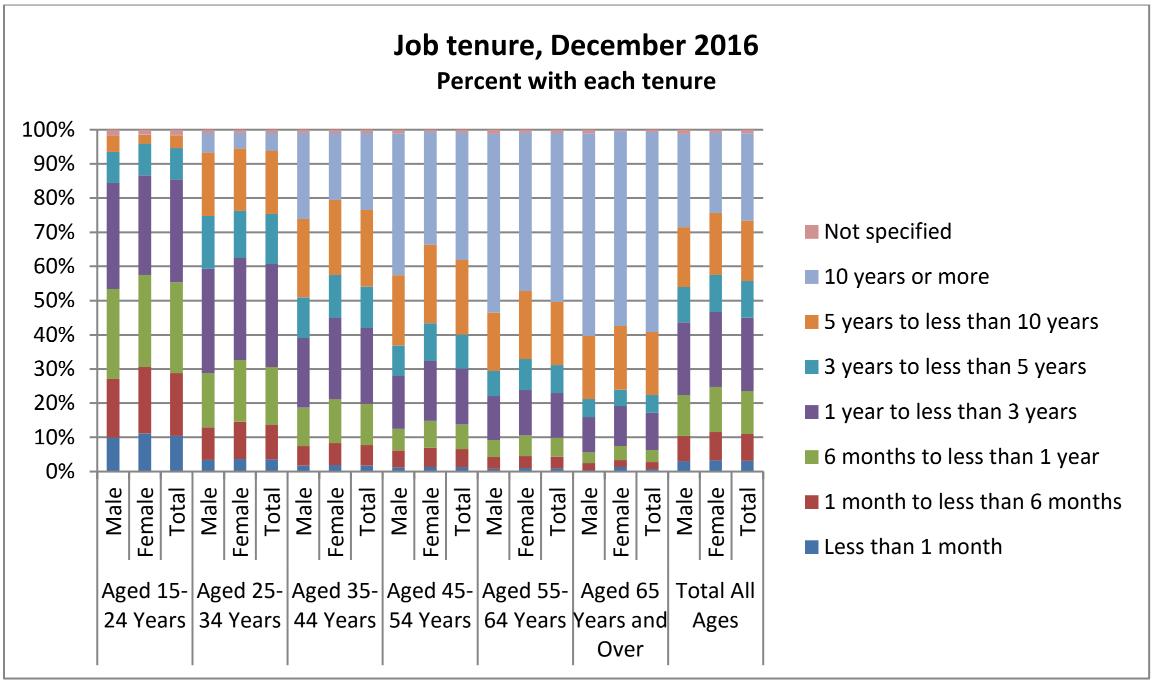
- The seasonally adjusted female unemployment rate at 5.7 percent in December was higher than for men (4.8 percent), and both rose from the previous quarter (5.2 percent and 4.7 percent respectively). Māori unemployment rose from 10.3 percent in December 2015 to 11.9 percent in December 2016, and Pacific people's unemployment rose from 9.2 percent to 9.7 percent over the year.

- **Youth unemployment** for 15-19 year olds was 22.0 percent in December, up from 19.1 percent in September, and similar to the 22.1 percent in December 2015 (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 2016 the unemployment rate was 30.7 percent and for Pacific Peoples it was 31.1 percent, both higher than a year before. For 20-24 year olds youth unemployment was 9.4 percent, up from 9.1 percent in September and 8.3 percent a year before. For Māori 20-24 year olds in December 2016 it was 15.9 percent and for Pacific Peoples it was 11.3 percent, both higher than a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) for 15-19 year olds was 9.6 percent, up from 7.2 percent in September and 6.6 percent a year before. For Māori 15-19 year olds in December 2016 the rate was 14.8 percent and for Pacific Peoples it was 14.1 percent, both higher than a year before. For 20-24 year olds the NEET rate was 17.3 percent, up from 14.8 percent in September and 15.0 percent a year before. For Māori 20-24 year olds in December 2016 the rate was 28.2 percent and for Pacific Peoples it was 22.3 percent. For the whole 15-24 year old group, unemployment was higher for those in education (17.3 percent) than those not in education (12.3 percent). There were 91,000 people aged 15-24 years who were not in employment, education, or training (NEET), up from 75,000 in September and 72,000 a year before.

★ From the June quarter, the HLFS started surveying **union membership** and having a **collective employment agreement**. In the December 2016 quarter, total union membership was estimated at 377,900, a 0.7 percent rise from 375,400 in the September quarter but lower than the 379,300 in the June quarter. The membership is 18.3 percent of employees (or slightly higher if those who didn't know were discounted) compared to 18.7 percent in the September quarter and 19.1 percent in the June quarter. Women make up 58.7 percent of the membership compared to 49.3 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 21.8 percent compared to 15.0 percent. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends. Regarding coverage by a collective employment agreement, 19.2 percent of employees (395,300, which is larger than the estimated number of union members) said their employment agreement was a collective in December compared to 19.5 percent in September and 20.6 percent (410,300) in June; 65.9 percent (1,358,400) said it was an individual agreement compared to 65.0 percent in September and 62.9 percent in June, and 7.8 percent or 160,000 said they had no agreement (which is illegal), compared to 7.9 percent in September and 8.6 percent in June. While the proportion has fallen slightly, there is still a large number that flout the law. A further 7.0 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 16.4 percent for men and 22.1 percent for women. Again, these figures could be affected by seasonal variations in numbers.

★ For the first time in June the HLFS also reported on "**employment relationship**". In the December 2016 quarter, 89.3 percent of employees (1,840,300) reported they were permanent, 5.2 percent casual (107,400), 2.8 percent fixed term (57,100), 1.4 percent seasonal (28,700), and 0.5 percent employed through a "temporary agency" (10,200). The proportion reporting they were permanent was down from 4.8 percent (1,804,100) in September and 5.4 percent (1,762,900) in June. Women were slightly less likely to be permanent employees: 88.2 percent of women were permanent compared to 90.4 percent of men. Instead, women were more likely to be casual (5.2 percent of them compared to 4.6 percent of men) or fixed term (3.4 percent of women compared to 2.1 percent of men). However somewhat more men were in seasonal work than women – 1.6 percent of men (16,600) compared to 1.2 percent of women (12,100). Of the temp agency employees, 4,500 were men and 5,700 women. Women make up 49.3 percent of employees. 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.

- For the first time in June the HLFS also reported on **duration of employment (job tenure)**. In the December quarter, 23.5 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 32.1 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 18.1 percent had been in their job for at least five but less than ten years, and 25.5 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, 27.4 percent of men had been in their jobs for more than 10 years, but only 23.4 percent of women. But the differences may not be statistically significant. As would be expected, age is a significant factor as the graph below shows.

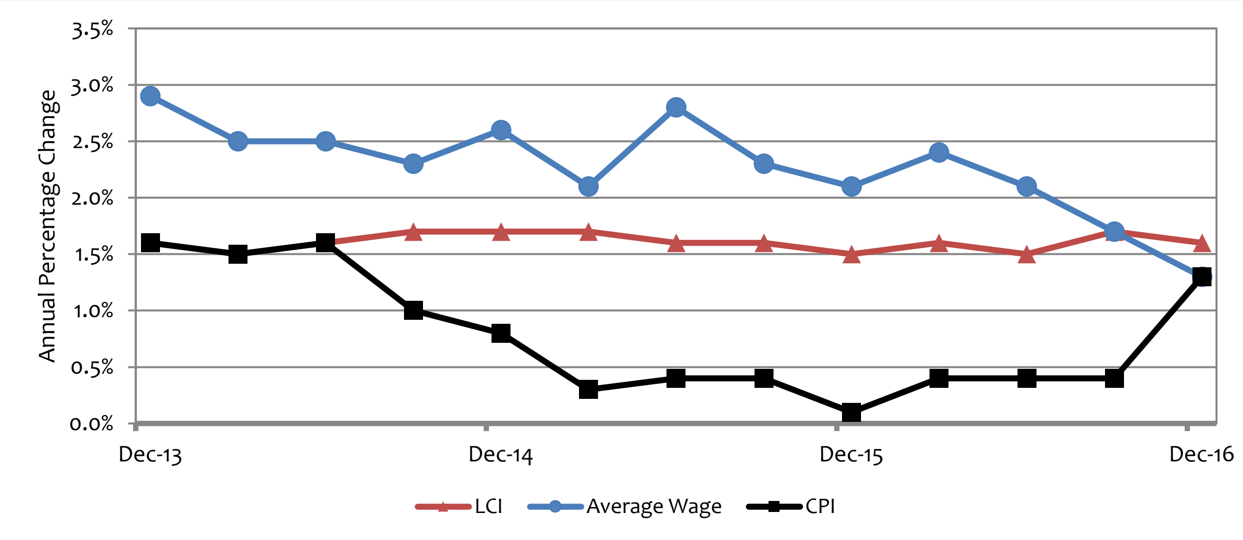


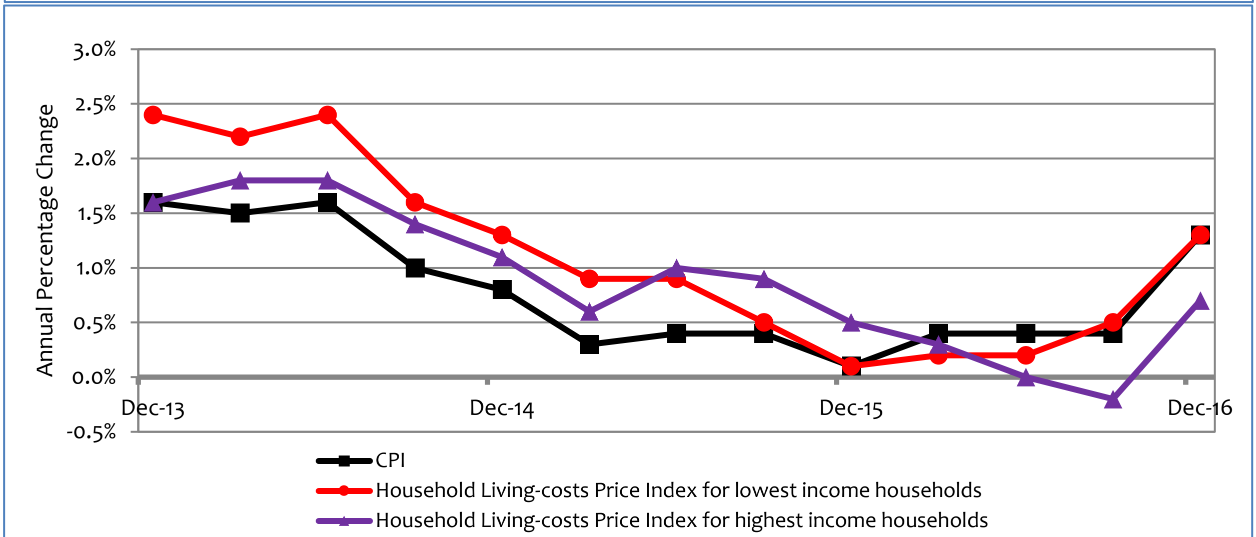
- The [Ministry of Social Development] reports that at the end of December 2016 there were 124,311 working age people on the Jobseeker benefit, 1,384 more than a year before and a rise of 2,027 from 122,284 in September. At December 2016, 67,502 were classified as 'Work Ready', and 56,809 were classified as 'Health Condition or Disability'. A total of 297,010 were on 'main' benefits, 4,339 fewer than a year before, mainly due to 3,410 fewer on Sole Parent Support, but 13,135 higher than September, mainly because of over 10,000 going onto a 'Jobseeker Support Student Hardship' benefit during the three months. It was 12,797 more than in December 2007. Of the 37,733 benefits cancelled during the three months to December, 17,604 or 46.7 percent obtained work, 14.1 percent transferred to another benefit and 1.4 percent became full time students.

★ Job Vacancies Online for January 2017 showed the number of job vacancies fell by 1.2 percent in the month and rose 9.4 percent over the same month a year previously, in seasonally adjusted terms. Over the year, vacancies in Auckland rose 9.1 percent, Wellington rose 5.0 percent, the rest of the North Island rose 19.6 percent, Canterbury fell 3.7 percent and the rest of the South Island rose 21.3 percent. Over the month, vacancies fell in Auckland by 1.4 percent, rose in Wellington by 0.5 percent, fell in the rest of the North Island by 1.6 percent, rose in Canterbury by 0.5 percent and fell in the rest of the South Island by 2.8 percent. By industry, the fastest annual increases were in Education and training (up 31.0 percent) and Construction and engineering (up 10.6 percent). IT (Information Technology) fell 11.4 percent. Over the month, advertised vacancies fell in all industries except Education and training (up 4.0 percent) and Construction and engineering (up 0.5 percent) with the falls ranging from 0.3 percent in IT (Information Technology) to 5.6 percent in Healthcare and medical and 9.2 percent in Hospitality and tourism. By occupation, the fastest rises over the year were for Labourers (up 23.7 percent), Machinery Drivers (up 22.9 percent), Managers (up 8.5 percent), Sales (up 8.4 percent), Professionals (up 8.2 percent) and Technicians and Trades workers (up 7.4 percent), and. Over the month, vacancies fell in all occupations except Professionals (up 1.9 percent) and Clerical and admin (up 0.1 percent) with falls ranging from 0.9 percent for Technicians and Trades workers to 5.7 percent for Community and personal service. All these are in seasonally adjusted terms.

★ International Travel and Migration statistics showed 11,370 permanent and long-term arrivals to New Zealand in January 2017 and 4,910 departures in seasonally adjusted terms, a net gain of 6,460. There was a record actual net gain of 71,305 migrants in the year to January, the highest ever. Net migration to Australia in the year to January was 1,264 arrivals, with 24,417 departures and 25,681 arrivals. However there was still a net loss of 4,088 New Zealand citizens to Australia over the year and a net loss of 1,729 to all countries. For the month of January, there was a seasonally adjusted net gain from Australia of 100, compared to a gain of 340 a year before. In January, 11.2 percent of the arrivals had residence visas, 21.5 percent student visas, 31.0 percent work visas, and 4.7 percent visitors. A further 31.1 percent were New Zealand or Australian citizens.

Wages and prices



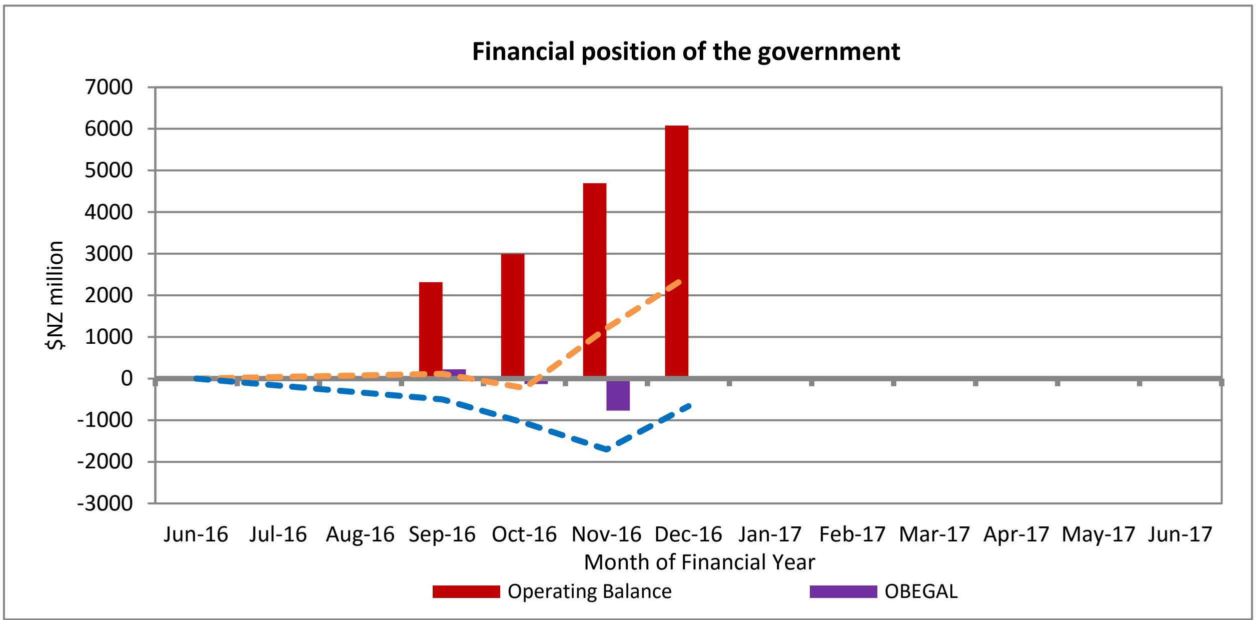


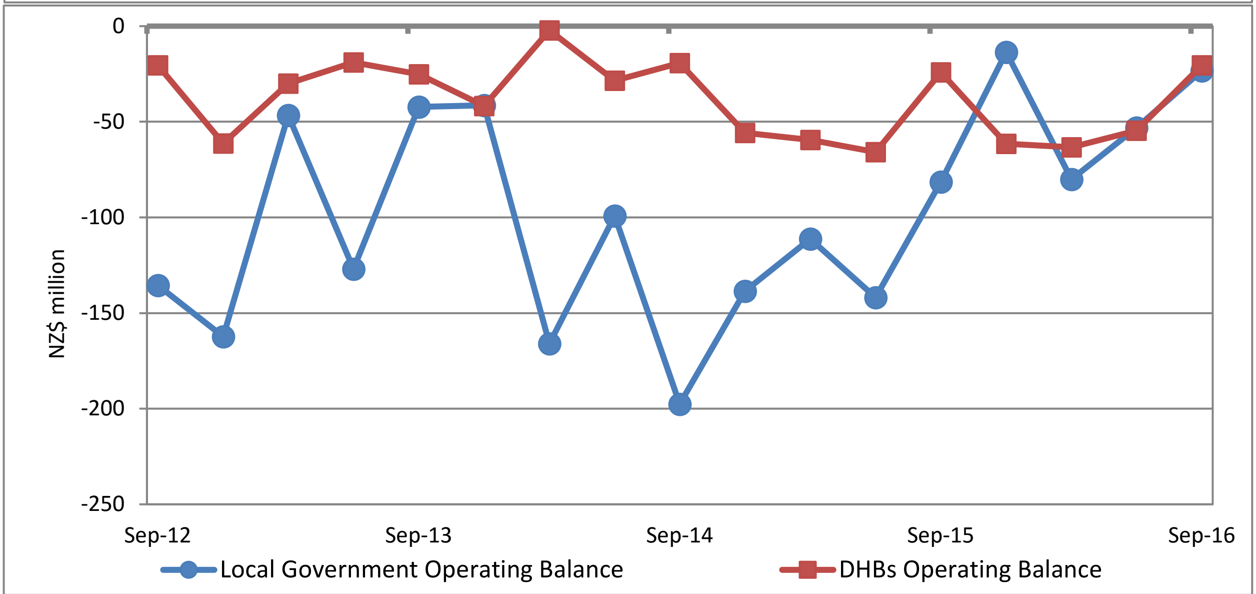
★ The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.4 percent in the three months to December 2016 and increased 1.6 percent in the year, ahead of the 1.3 percent increase in the CPI. The LCI increased 0.5 percent in the public sector and 0.4 percent in the private sector in the three months to December. Over the year it rose 1.8 percent in the public sector and 1.6 percent in the private sector. During the year, 45 percent of jobs surveyed did not receive a pay rise, and 47 percent of private sector jobs got no rise. For the 55 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.2 percent and the average increase was 3.1 percent. For those jobs that received increases, the median increase in the public sector was 2.0 percent and in the private sector 2.2 percent; the average increase in the public sector was 2.5 percent and in the private sector 3.1 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 are more likely to get a pay rise of any size ranging from less than 2 percent to 5 percent but are 20 percent less likely to get one of more than 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 got a pay rise. In the construction industry, after falling behind for almost two years, salary and ordinary time wage rates in Canterbury rose more quickly in the quarter than in the rest of the country: 0.8 percent in Canterbury but 0.4 percent in the rest of the country; but over the year to December, wage rates rose faster in the rest of the country: 1.4 percent in Canterbury compared to 2.2 percent elsewhere. For those getting a rise, Canterbury wage rates rose 4.0 percent in the year compared to 3.6 percent elsewhere.

- ★ The Quarterly Employment Survey for the three months to December 2016 found the average hourly wage for ordinary-time work was $29.75, down 0.1 percent on the previous quarter and up just 1.3 percent over the year (the lowest increase since 2010 when the country was just coming out of recession). Female workers (at $27.51) earned 13.2 percent less than male workers (at $31.68) for ordinary time hourly earnings. The average ordinary-time wage was $27.74 in the private sector (down 0.3 percent in the quarter and up just 1.1 percent in the year) and $37.63 in the public sector (up 0.5 percent in the quarter and up 3.0 percent in the year). Average total hourly wages (including overtime) ranged from $19.05 in Accommodation and food services, and $20.81 in Retail trade, to $41.82 in Finance and insurance services, and $40.26 in Information, media and telecommunications in December. In Accommodation and food services, 61 percent of employee jobs were part time, and in Retail trade, 44 percent were part time; 44 percent were also part time in Health care and social assistance, 41 percent in Arts, recreation and other services, and 31 percent in Education and training. Together these five industries made up 68 percent of all part time work. (The QES does not include agriculture or fishing and excludes very small businesses.)

- The Consumer Price Index (CPI) rose 0.4 percent in the December 2016 quarter compared with the September quarter, or 0.7 percent in seasonally adjusted terms (it is often negative in the December quarter), and increased 1.3 percent for the year to December, the first time it has been 1.0 percent or more since September 2014. For the quarter, the largest upward influence was Transport (up 3.7 percent) which by itself would have accounted for the total rise, pushed up by rising prices for petrol, passenger transport (especially international air travel) and new cars. However Housing and household utilities rose 0.6 percent, worth nearly a third of the rise, mainly due to rents rising 0.5 percent and new houses up 1.4 percent. They were offset by falls in Food (down 1.2 percent, mainly due to a 9.9 percent fall in Fruit and vegetable prices) and Household contents and services (down 1.4 percent, the largest contributor being costs of furniture and furnishings which fell 2.3 percent). Over the year however, Housing and household utilities was easily the biggest driver in the rise, up 3.3 percent and contributing almost two-thirds (60 percent) of the increase, led by rents up 2.0 percent and new housing up 6.5 percent but rises above average inflation in Property maintenance (up 3.1 percent), Property rates and services (up 3.2 percent), and Household energy (up 2.4 percent). Not part of the Housing group but also related to housing are house insurance (up 3.5 percent – but contents insurance was down 0.3 percent), and Real estate services (up 12.1 percent). Not part of the CPI (though in Household Living Cost Indexes) is Interest, which was still falling in December (down 2.2 percent in the quarter and 10.0 percent over the year) though there are now signs it is beginning to rise again. In seasonally adjusted terms, the CPI rose 0.7 percent from September, Food rose 0.4 percent, Alcoholic beverages and tobacco rose 1.3 percent, Clothing and footwear rose 0.8 percent, Housing and household utilities rose 0.8 percent, Communications fell 0.7 percent, Recreation and culture rose 0.2 percent, and Education rose 0.8 percent. Inflation in Canterbury for the year was 1.2 percent and it was 1.5 percent in the rest of the South Island. In Auckland prices rose 1.2 percent, Wellington 1.6 percent and 1.4 percent in the North Island other than Auckland and Wellington. Auckland's housing costs rose 3.9 percent over the year, the fastest in the country; Wellington's rose 2.6 percent, the North Island (outside Auckland and Wellington) rose 3.2 percent, Canterbury's rose 2.0 percent and rest of the South Island rose 2.9 percent, with the national average movement of 3.3 percent exceeded only by Auckland.

- In November, Statistics New Zealand published its first quarterly release of several new price series, The **Household Living-costs Price Indexes** (HLPIs). These show price increase 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 different types of households. There is a total of fourteen indexes: for "all households", Beneficiary households, Māori households, Superannuitant households, five for households ranked by income (five "income quintiles"), and five for households ranked by expenditure ("expenditure quintiles"). The incomes and expenditures are calculated to take account of household size and composition ("equivalised"). They are not strictly comparable to the CPI because they used different a methodology. See the commentary in the November 2016 Bulletin for more detail. The September release shows that over the year to September, the All households HLPI index rose 0.1 percent, the Beneficiary households index rose 0.8 percent, the Māori households index rose 0.2 percent, and the Superannuitant households index rose 0.4 percent. By income quintile, the index for the lowest income households (quintile 1) rose 0.5 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.0 percent, quintile 4 rose 0.0 percent, and quintile 5 fell 0.2 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.6 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.1 percent, quintile 4 fell 0.1 percent, and quintile 5 fell 0.3 percent. Over the September quarter, the All households HLPI index rose 0.3 percent, the Beneficiary households index rose 0.2 percent, the Māori households index rose 0.2 percent, and the Superannuitant households index rose 0.3 percent. By income quintile, the index for the lowest income households (quintile 1) rose 0.3 percent, quintile 2 rose 0.4 percent, quintile 3 rose 0.2 percent, quintile 4 rose 0.3 percent, and quintile 5 rose 0.4 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.2 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.4 percent, quintile 4 rose 0.3 percent, and quintile 5 rose 0.4 percent. The next release is on 9 February.
- The Food Price Index fell by 0.8 percent in the month of December 2016 (and fell 0.5 percent in seasonally adjusted terms). Food prices rose 0.6 percent in the year to December. Compared with the previous month, fruit and vegetable prices rose 0.1 percent (but were down 0.4 percent seasonally adjusted); meat, poultry, and fish prices fell 1.5 percent; grocery food prices fell 0.9 percent (down 0.6 percent seasonally adjusted); non-alcoholic beverage prices fell 3.1 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.)





★ According to Treasury's [Financial Statements of the Government of New Zealand]() for the six months to 31 December 2016, core Crown tax revenue was $313 million (0.9 percent) higher than forecast in the 2016 Half Year Economic and Fiscal Update (HYEFU 16). In the November statement, Treasury adjusted its forecasts to estimate the fiscal cost of the Kaikōura earthquakes which were "expected to be between $2 billion and $3 billion. As a result, $1 billion was added to the HYEFU 16 forecasts in relation to estimated costs that could not be met by insurance proceeds, reprioritisation or existing budget allowances." The results reported need to be read in this light. GST was $313 million (0.9 percent) above forecast. Overall core Crown revenue was $122 million or 0.3 percent higher than forecast. Core Crown expenses were $303 million (0.8 percent) below forecast, mainly because spending on the Kaikōura earthquakes is lower than expected. As a result, the Operating Balance before Gains and Losses (OBEGAL) was $9 million in surplus, $675 million better than forecast. The Operating Balance was a $6.1 billion surplus, $3.6 billion higher than expected. "This primarily related to an actuarial gain of $3.1 billion ($2.8 billion higher than forecast) of the

ACC liability." Net debt at 25.5 percent of GDP ($65.3 billion) was $317 million worse than forecast. Gross debt at $86.7 billion (33.9 percent of GDP) was $1.6 billion less than forecast. The Crown's net worth in financial terms was $3.7 billion higher than forecast at $95.5 billion.

- ★ District Health Boards had 520 full time equivalent staff fewer than planned in December 2016 (62,274 compared to 62,794 planned). While all categories of staff were affected, the largest shortfalls were in Medical Personnel (doctors – 260 short), Allied Health staff (243 short) and Management/Administration staff (120 short). There were 128 more Nursing staff than planned. Average costs per full time equivalent staff were very close to those planned. The DHBs recorded combined deficits of $43.0 million in the five months to December. This is $14.5 million worse than their plans. The Funder arms were in surplus by $64.2 million, and Provider arms (largely their hospitals) in deficit by $106.6 million, $58.9 million worse than planned. The Northern region was $5.7 million behind plan with a surplus of $5.2 million and all DHBs but Northland in surplus. The Midland region was $6.8 million behind plan with a deficit of $0.1 million and three of the five DHBs in deficit. Central region was $4.0 million behind plan with a combined $18.1 million deficit and all in deficit. The Southern Region was $2.0 million ahead of plan with a $30.0 million deficit and three of the five DHBs in deficit, with Canterbury showing an $18.9 million deficit and Southern $11.5 million. In all, seven of the 20 DHBs were in surplus. The DHB furthest ahead of plan was Southern by $1.9 million, and Auckland was furthest behind, by $6.0 million. Capital expenditure across all DHBs was well behind plan with $392.2 million spent out of $482.4 million planned.
- Local Government recorded a 2.8 percent ($66.0 million) rise in operating income and a 1.5 percent rise in operating expenditure ($36.3 million) including a 2.5 percent rise in employee costs ($13.5 million) for the September 2016 quarter compared to June 2016. This resulted in an operating deficit of $23.3 million in the June quarter, compared with a deficit of $53.0 million in the June quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010, all in seasonally adjusted terms. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

Notes

This bulletin is available online at http://www.union.org.nz/economicbulletin186.

For further information contact Bill Rosenberg.