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Commentary

Finding enough revenue and the 'Wellbeing Budget'

Summary

The Prime Minister has announced that the Government will not tax the income from capital gains while she is Prime Minister. It has therefore lost a future source of revenue at a time when needs are becoming ever more apparent, and just before its first 'Wellbeing Budget'.

Both supporters and opponents of taxing capital gains were astonished at the Prime Minister's decision. There were other options, even given New Zealand First's abject opposition to it. An historic opportunity has been lost to rebalance an unfair tax system by shifting it towards the income from capital and the wealthy. We should not stop advocating for a capital gains tax.

The bigger picture was the furious campaign against it by every business interest which stood to pay the tax, and their representatives including Business New Zealand and the National Party. The media gave voice to a parade of property investors, commercial property owners and others, often with outlandish claims about the effect of the tax, generally trying to dress up their own self-interest as the public interest.

What choices does a future Government have to make the tax system much fairer and raise the revenue needed to make serious inroads into our environmental and economic needs?

The main options are higher top income tax rates and taxes on wealth: a land tax, a wealth tax, an inheritance tax, or a tax on the "deemed income" from assets. I outline how they might work and give some estimates of the revenue they could raise.

We will have to see how the 30 May "Wellbeing Budget" will change the way the Government's plans are presented. We can expect reporting on non-financial indicators including the environment, people's education and health status, the state of child poverty and other measures of inequality. Because it is the first such Budget, these will form the base line for measuring progress in future. We can expect some hints in the forecasts as to what might change in its Budget Responsibility Rules, such as in debt and spending tracks. But we are unlikely to hear about what it might replace them with: that is for election year. A recent symposium started some thinking on how both the Government's own Budget guidelines and the Public Finance Act should change.

The Government has set itself five objectives for the Budget covering economic and regional development, developing New Zealand's digital capabilities, lifting Māori and Pacific incomes and skills, reducing child poverty and family violence, and supporting mental wellbeing with a focus on under 24-year olds. We can expect an emphasis on these areas, but there are additional substantial needs in health, housing, education and other public services.

The Prime Minister has announced that the Government will not tax the income from capital gains in her political lifetime as Prime Minister. The Government has therefore lost a future source of additional revenue at a time when the need is becoming ever more apparent, and just before its first 'Wellbeing Budget'. It has also lost a potent opportunity to make the tax system fairer in a fundamental way.

A Wellbeing Budget should document the outstanding needs of current and future generations. We should also look for some hints as to how the Government will change its Budget Responsibility Rules to enable it to address these needs.

In this commentary, I reflect on the loss of the opportunity to tax capital gains income, what options should be considered to replace it, and take a quick look ahead at the Budget. We will be producing our usual special report on Budget day, 30 May.

On revenue

The centrepiece of the Tax Working Group's report was of course taxing the income from capital gains. I covered this and many of its other recommendations in the February *Bulletin*.

Both supporters and opponents of taxing capital gains were astonished by the Prime Minister's decision to wipe it off the Labour Party's programme as long as she was in office. There were other options, even given New Zealand First's – in the end – abject opposition to it, including delaying legislation but going to the polls on it as planned. An historic opportunity has been lost to rebalance an unfair tax system by shifting it towards the income from capital and the wealthy. We should not stop advocating for one.

While the immediate cause of the demise of the proposed tax was New Zealand First, the bigger picture was the furious campaign against it by every business interest which stood to pay the tax and their representatives including Business New Zealand and the National Party. They were faithfully reported by the dominant media networks who refused our offers at the outset to put a case in favour of the tax, really only taking an interest when the decision to ditch the tax was announced. By contrast, Fairfax printed at least three opinion pieces from Business New Zealand opposing the tax, Newshub gave generous coverage to its slanted opinion polling and the *Herald* uncritically covered the organisation's shonky calculation of the costs of the tax. To their credit, some Fairfax journalists did look through these pieces of political advocacy, questioning the wording of the polling and labelling such efforts as "peddling misinformation. An estimate by Business NZ that a capital gains tax would cost $5 billion over five years in compliance costs and 'deadweight costs' was to all intents and purposes 'made up'."[1] All gave voice, throughout the process, to the parade of property investors (it is telling that that is what landlords call themselves), commercial property owners and others, often with outlandish claims about the effect of the tax, generally trying to dress up their own self-interest as the public interest.

As a member of the Tax Working Group I had seen the parade of such interests through written and oral submissions, by individual businesses, business organisations and business service organisations such as the large accounting firms. The views of the vociferous Taxpayers Union were little different to the more extreme corporate opponents of the tax. While some of the accountants, whose bread and butter comes from servicing businesses, to their credit saw the logic of taxing capital gains (realised capital gains are after all recognised as income in the accounts they produce) and were more interested in its design than its destruction, others joined in the campaign against it. The wealth, power and influence of the big accounting firms should not be underestimated.

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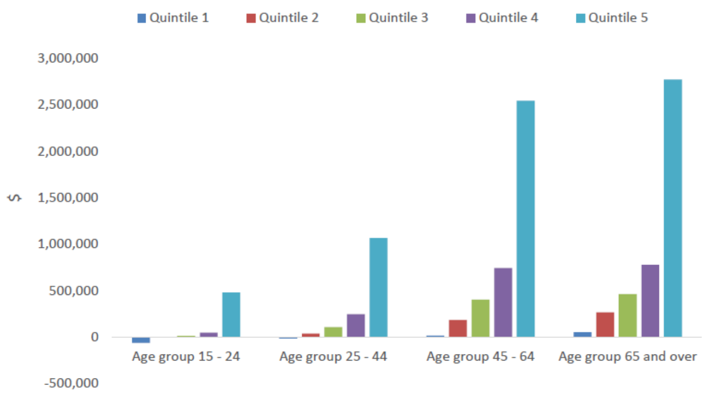
[1] https://www.stuff.co.nz/business/112113505/messy-push-for-capital-gains-tax-ends-in-surrender, Tom Pullar-Strecker, 18 April 2019.

Some commentators have described this as the baby boomer generation protecting itself against the interests of following generations, but I didn't see much of Grey Power in the parade. Declaration of interest: I am a baby boomer – though as is abundantly clear I am in favour of taxing the income from capital gains. Bernard Hickey, whom I greatly respect, has put this most clearly. The core of the argument is that the baby boomers have benefited hugely from the rocketing property prices and are now opposing any attempt to tax their gains. There is of course some truth to this. As people age they tend to accumulate wealth, both through paying off their mortgages on their homes (and the baby boomers are much more likely to own their homes than recent generations) and from retirement savings. Some become employers or investors in real estate or shares. Hickey is right to call out opposition to taxing capital gains as being against the interests of current generations who increasingly cannot afford to buy a house, and too often even to rent a decent quality one. This 'generational' analysis makes some electoral sense in that because of their wealth, older people will be more likely to oppose a tax on capital gains.

But it overlooks the fact that in every age group, the distribution of wealth is *hugely* unequal. Figure 13 below, from one Tax Working Group background paper[1] illustrates this. Another background paper[2] gives further detail.

In 2014/15 the inequality in net wealth among individuals was over *double* New Zealand's high inequality in disposable household income measured by the gini coefficient (which is 0 for perfect equality and 1 if one person owns everything). Further, by far the largest part of most people's wealth will be their home, if they own one, which would not be taxed. The inequality in ownership of the remaining net wealth is even more extreme.

Figure 13: Mean household net worth for net worth quintiles of each age group (age is that of oldest member of household), 2015



Source: The Treasury, Statistics NZ

The gini of net wealth (including owner-occupied homes) varied between age groups – but it was very high for all of them: between 0.8 and 0.9 for 15-24 year olds, 0.86 for 25-34 year olds, 0.72 for 35-44 year olds, 0.66 for both 45-54 year olds and 55-64 year olds, 0.61 for 65-74 year olds and 0.63 for people aged 75 and above. It was higher for the youngest age groups (as might be expected – many have high levels of debt and few have much net wealth) but for those 35 and above at statistically similar levels of very high inequality[3]. To illustrate the disparities within these groups, 65-74 year old Māori and Pacific People had median net worths at $80,000 and $49,000 respectively, far below the $338,000 median for the same age group Europeans, and much less even than the $124,000 median of 35-44 year old Europeans.

So in economic terms it is wrong to see this as an age divide: it is about the relatively few with high wealth other than their home, especially speculators and those with real-estate-based wealth, against the rest.

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[1] Tax Working Group Secretariat. (2018). *Distributional analysis: Background Paper for Session 5 of the Tax Working Group*. Retrieved from: https://taxworkinggroup.govt.nz/resources/twg-bg-3970237-distributional-analysis-and-incidence

[2] Tax Working Group Secretariat. (2018). *Distributional analysis and incidence: Background Paper for Session 15 of the Tax Working Group*. Retrieved from: https://taxworkinggroup.govt.nz/resources/twg-bg-3970237-distributional-analysis-and-incidence

[3] See tables A(3), which shows ginis by gender, and A(7), which shows confidence intervals for the different age groups.

The Government asked for a fairer tax system. It will need significantly more revenue to make serious inroads into poverty, real support for people losing their jobs or needing new skills due to technological change, globalisation and climate change, fixing mental health and other underfunded parts of the health system, dealing with the mess of financially failing polytechnics, restoring both the quality and extent of public rental housing, and restoring adequate staffing, retention and recruitment in many public services.

What are its options? Hopefully it will be asking officials to assess the following.

Higher top tax rates. New Zealand's top income tax rate at 33 percent is well below other OECD countries, which average 43 percent. A new top tax rate of 45 percent on income above $150,000 (Australia taxes at 47 percent including a 2 percent Medicare levy on income above A$180,000) would bring approximately $1.2 billion per year in additional revenue according to Treasury's revenue calculator.[1] As the Tax Working Group recommended, rules would need to be put in place to prevent high income individuals from avoiding the top rate such as by running their income through private companies or trusts or converting income into tax-free capital gains. Reducing lower tax rates by raising thresholds to compensate for (say) 6 percent inflation over the next three years, as the Opposition has advocated, would halve that revenue. Raising revenue similar to the long-run average expected from taxing capital gains (over $3 billion per year in current terms) could be achieved either by taxing at 55 percent above $120,000 or at 45 percent above $120,000 and raising all lower tax rates by one percentage point. The latter is unlikely to be as progressive as taxing capital gains.

A form of wealth tax. The Tax Working Group did not recommend a land or wealth tax, which was accepted by the Government, which had also ruled out an inheritance tax in advance. But if the increasing dominance of capital income over labour income, and rising wealth inequality are not going to be offset by taxing capital gains then other ways must be found.

A **land tax** would be like local government rates which tax land (and also the buildings on it). Economists like land taxes because land is in fixed supply so the tax encourages more efficient use of it, and it is relatively easy to collect. For the 2009 Tax Working Group, which favoured a land tax, officials calculated the revenue potential of a non-deductible land tax that was levied at a 1 percent rate on all land (except public, conservation, and Māori authority land) at $3.8 billion per year[2]. Given the rise in land values since then, a similar tax would raise over $6 billion. That would be reduced if the tax rate was reduced or there were other exemptions such as for low value land or the family home or a fixed amount (such as the first $500,000 land value). Special provisions may be needed for relatively low income land owners such as older people and Māori. A variant described by the Tax Working Group though not yet feasible, is to base the tax on land use: the levy would be higher if the land use had a greater negative impact on the environment. Reserves might not be taxed at all.

A **wealth tax** would be a levy on total net wealth including a wider range of assets than land. The choice of assets would require similar consideration to those for the proposed tax on capital gains. Its advantage over a land tax is that it doesn't single out land, and other forms of wealth (such as shares and other financial assets) are even more narrowly distributed than real estate so it is more inequality-reducing

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[1] https://treasury.govt.nz/publications/model/aggregate-personal-income-tax-revenue-estimate-tool. These are approximate values.

[2] Tax Working Group Secretariat. (2018). *RFRM and Land Taxes: Background Paper for Session 11 of the Tax Working Group*. Retrieved from https://taxworkinggroup.govt.nz/resources/twg-bg-3964969-rfrm-and-land-taxes

(progressive) and it could be levied at a lower rate to gather the same revenue. However such assets are also more easily hidden or moved overseas, avoiding or illegally evading New Zealand tax authorities. Regular valuation is necessary. A minimum threshold of say $1 million would reduce administration and increase progressivity. According to the 2018 Household Economic Survey of wealth, only one in five households had more than $1,068,000 in net assets, but they held 70.0 percent of all net household wealth. Such a tax at 0.5 percent would have raised $3 billion in 2018, avoidance and evasion aside.

A traditional form of wealth tax is an **inheritance tax**. A conceptually simple form would be to treat inheritance as income in the hands of the person receiving it. It needs serious consideration to prevent the concentration of inherited wealth over generations. Again a minimum threshold per estate could be applied. Because such taxes no longer exist it is difficult to estimate the revenue from one. It would need to be paired with gift duties to prevent avoiding it by gifting before death.

Finally, there are advocates on both the left and the right for a **tax on the "deemed income" from assets**. Sometimes referred to obscurely as the "Risk-Free Return Method" (RFRM), it "deems" that assets (after deducting any debt owed on them) earn a certain rate of income and taxes it like any other income. It replaces the tax on conventional investment income, so there are no deductions such as for maintenance, depreciation or interest paid by the business. Portfolio investments in overseas shares are taxed in this way at a 5 percent deemed income. The Tax Working Group considered taxing a 3.5 percent return on residential investment properties (a return approximately equal to the interest rate on a term deposit in a bank). Officials estimated it would earn additional revenue over and above the current tax paid by landlords of $998 million in the first year, rising to $1,922 million in ten years. (This shows how heavily undertaxed rental property investors are: their taxable income is substantially less than if they put their money in a term deposit, and in fact less than a 1.7 percent interest Treasury bond rate.) A difficulty with this method is that it requires annual revaluations and so only works well with easily valued assets such as real estate and publicly listed shares. It can be used to avoid tax on labour income. Like wealth and land taxes, it is unrelated to actual income earned, which may create resistance.

We can expect cries of self-serving outrage at any of these. But it is crocodile tears for those who express concern about growing inequality, stubborn, unacceptable levels of poverty, deteriorating housing and social services, and the need for capitalism to have a human face, to then reject crucial and necessary steps to provide solutions to them.

> I sit on a man's back, choking him, and making him carry me, and yet assure myself and others that I am very sorry for him and wish to ease his lot by any means possible, except getting off his back.
>
> **Leo Tolstoy,** *Writings on Civil Disobedience and Nonviolence* (1886)

On the Wellbeing Budget

We will have to see how the 30 May "Wellbeing Budget" will change the way that the Government's plans are presented. Some of it will stay the same: the Treasury regards most of the Budget documents such as the economic and fiscal forecasts and the estimates of appropriations as its property. But we can expect reporting on non-financial indicators including the environment, people's education and health status, the state of child poverty and other measures of inequality. Because it is the first such Budget, these will form the base line for measuring progress in future.

The Government stated five objectives for the Budget in its December Budget Policy Statement:

1. Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy.

2. Supporting a thriving nation in the digital age through innovation, social and economic opportunities.
3. Lifting Māori and Pacific incomes, skills and opportunities.
4. Reducing child poverty and improving child wellbeing, including addressing family violence.
5. Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds.

At face value these imply additional funding for economic and regional development, with an emphasis on 'green' development. Hopefully they also include better support for workers when they are made redundant to help them find good jobs, an area in which New Zealand is far behind many other OECD countries. There may be funding for internet connections to low income households, or setting up additional facilities in communities and schools, and further moves towards putting public services online. But it is not clear where other major education funding needs will rank. There seems likely to be more targeted programmes for Māori and Pacific peoples – there were many complaints at the lack of this after last Budget. More funding to reduce child poverty – or at least plans for future funding – are likely, especially given that the Welfare Expert Advisory Group's report will be public by then. But there is not enough revenue available to make a significant difference. A specific focus on reducing family violence is promised. There will be funding for the recommendations of the inquiry into mental health and addiction. That will be welcome and long overdue but there is also much needed in the rest of the health system.

Economic and fiscal forecasts are for four years ahead, so will look well beyond the Government's current term of office yet rely on its policies to make the forecasts. It has committed to its Budget Responsibility Rules only for this term, so we can expect the forecasts to hint what might change, such as in debt and spending tracks. But we are unlikely to hear their plans for changes to the rules until election year.

I recently took part in a day-long symposium at Victoria University's Institute for Governance and Policy Studies on what should change not only in these self-imposed rules, but more fundamentally in the Public Finance Act. Its "Principles of responsible fiscal management" lead Governments towards focusing on lowering debt and spending and are inconsistent with a full wellbeing approach. I will write more about this in a future *Bulletin,* but wellbeing needs to be at the heart of these rules – it is a twisted view of "responsible" fiscal management that ignores some of the most pressing problems in our society and environment. The Government's focus on wellbeing is therefore welcome.

This does not mean we can ignore government debt, nor that spending can rise without limit, but wellbeing must be the primary objective and we need a better balance between these considerations. Any debt or spending target is arbitrary. Economist Dennis Rose suggested that instead of the current statutory fiscal principles, five key reference points need to be taken into account:

1. Operating surpluses in periods of growth.
2. A licence to run deficits in times of recession to stimulate the economy.
3. Debt guidelines that balance funding for investments (such as infrastructure) between current revenue and borrowing. This suggests a capital expenditure track showing future sources of finance rather than a debt target. It would consider investment needs and impacts on the wider economy.
4. A framework for assessing fiscal settings taking into account wellbeing including broader economic objectives.
5. A framework for assessing the distributional implications of fiscal settings.

I hope these issues will be debated further.

Bill Rosenberg

Information

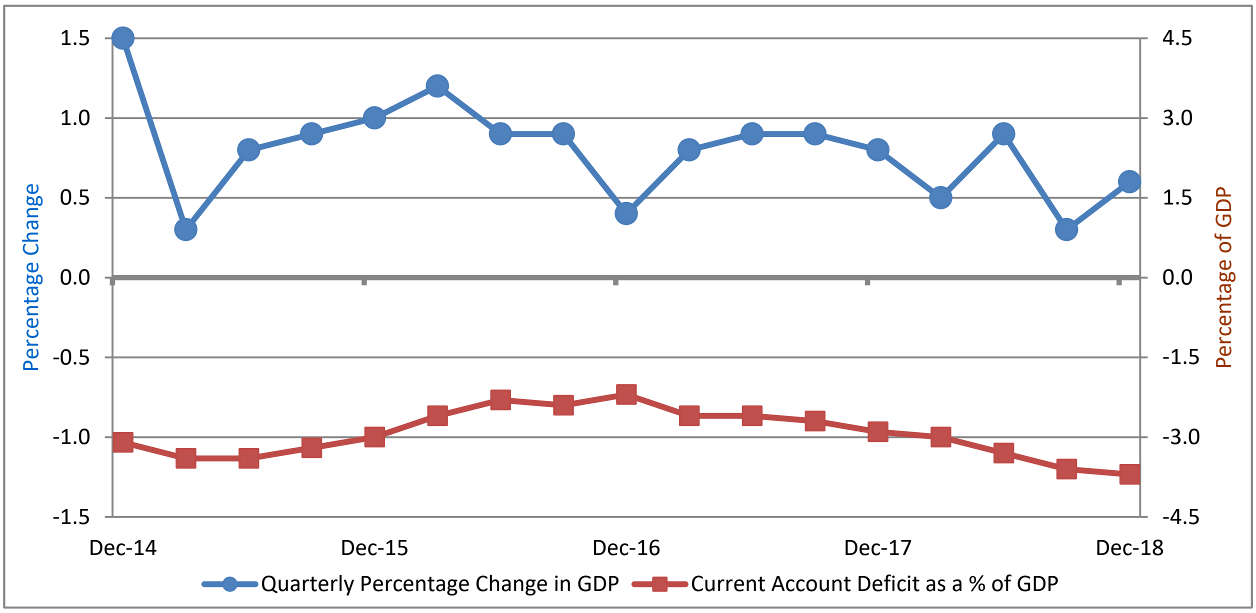
A ★ indicates information that has been updated since the last bulletin.

Forecast

- This NZIER consensus forecast was released on 18 March 2019.

Annual Percentage Change (March Year)	2018/19	2019/20	2020/21	2021/22
GDP	2.7	2.8	2.9	2.5
CPI	1.7	1.9	2.0	2.0
Private Sector average hourly wage	3.2	3.3	3.3	3.2
Employment	2.5	1.6	1.6	1.4
Unemployment rate (% of labour force)	4.2	4.1	4.0	4.1

Economy



- Growth in New Zealand's measured economy in the three months to December 2018 was moderate, with Gross Domestic Product rising by 0.6 percent, up from 0.3 percent in the previous quarter, but below the 0.9 percent in the June quarter. Average growth for the year ended December 2018 was 2.8 percent (and 2.3 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 just 0.1 percent in the September quarter, better than a 0.1 percent fall in the September quarter, but up 0.9 percent over 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, fell 0.6 percent over the quarter and rose 0.9 percent over the year.

- I estimate that **labour productivity**, measured by production per hour worked in the economy, stayed still, growing 0.0 percent in the year to December compared to the same period a year ago, continuing weak labour productivity growth which is bad for future wage growth. It rose 2.6% in the quarter, seasonally adjusted.
- **Business investment** rose by 1.3 percent compared to the previous quarter, with a 8.9 percent fall in investment in Transport equipment offset by strong rises in Intangible fixed assets (up 5.2 percent), Non-residential buildings (up 4.1 percent), Land improvements (up 2.4 percent), and Plant, machinery and equipment (up 2.0 percent). Other Construction rose 0.4 percent after a 4.4 percent fall in the previous quarter. Residential construction rose 2.1 percent. All investment spending tends to be very variable from quarter to quarter, and can be significantly affected by a single large purchase such as an aircraft, so single quarter changes do not necessarily indicate trends. Compared to the same quarter the previous year, growth in total investment including housing (Gross Fixed Capital Formation) was 1.1 percent but Business investment grew only 0.3 percent, driven by Intangible fixed assets (up 7.5 percent), Non-residential buildings (up 4.9 percent) and Land improvements (up 3.2 percent), offset by falls in Transport equipment (down 10.9 percent) and Other construction (down 7.7 percent). Investment in housing rose 3.1 percent over the same quarter the previous year. Again, even annual quarter to quarter comparisons can be misleading: Business investment rose 4.3 percent when comparing annual values, and Residential building investment rose 2.7 percent on the same basis.
- **Household consumption** expenditure grew 1.3 percent in the December quarter in real terms, after a 1.0 percent increase in September and increases of around 1.0 percent in quarters before that apart from a 0.2 percent increase in the March 2018 quarter. It rose a strong 3.6 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, largely reflecting the revenue employers are getting for their products) fell 0.1 percent compared to the same quarter the previous year, and fell 0.3 percent in the most recent quarter.
- **By industry**, the largest contributors to growth in the latest quarter were Transport, postal and warehousing (up 3.2 percent), Retail trade and accommodation (up 2.5 percent), Rental, hiring, and real estate services (up 1.1 percent), Construction (up 1.8 percent), Public administration and safety (up 1.8 percent), and Health care and social assistance (up 0.9 percent). The largest fall in activity was in Arts, recreation, and other services (down 2.4 percent). There were also contractions in Mining (down 1.7 percent), Electricity, gas, water and waste services (down 1.1 percent), Manufacturing (down 0.4 percent), and Wholesale trade (down 0.4 percent). Year-on-year, the biggest rises were in Transport, postal and warehousing (up 5.3 percent), Public administration and safety (up 4.2

percent), Wholesale trade (up 4.1 percent), Professional, scientific, technical, administrative and support services (up 3.8 percent), and Retail trade and accommodation (up 3.8 percent); only Mining contracted (down 11.3 percent).

- New Zealand recorded a Current Account deficit of $2.5 billion in seasonally adjusted terms for the December 2018 quarter, following a $2.5 billion deficit for the previous quarter. There was a deficit in goods trade ($1.0 billion, seasonally adjusted) following a $0.9 billion deficit in the previous quarter, with deficits in all quarters back to September 2014. There was a seasonally adjusted surplus of $54 million in goods and services (down from the $148 million surplus in the previous quarter) including a $1.0 billion surplus in services, while the deficit on primary income (mainly payments to overseas investors) was almost static on a deficit of $2.5 billion (seasonal adjustment not available). For the year to December 2018, the current account deficit was $11.0 billion or 3.7 percent of GDP, up from the $10.6 billion deficit in the year to September (3.6 percent of GDP). The deficit on investment income was $10.7 billion for the year.

- The country's Net International Liabilities were $167.3 billion at the end of December 2018, up sharply from $156.3 billion at the end of the previous quarter and $156.3 billion a year before. The December liabilities were equivalent to 57.0 percent of GDP, up from the previous quarter (53.6 percent) and 55.4 percent a year before. The sharp rise is because of a fall in the value of overseas assets owned by New Zealand residents from $269.5 billion to $258.8 billion. Gross international liabilities were equivalent to 145.3 percent of GDP, compared to 146.1 percent in the previous quarter and 144.6 percent a year before. Net international liabilities would take 2.03 years of goods and services exports to pay off, unchanged from 2.03 years a year before. However gross liabilities at $425.8 billion would take 5.17 years of goods and services exports to pay off. The rise in net liabilities over the quarter was due to a net $9.6 billion valuation decrease plus a $1.4 billion net outflow of investment, the great majority of which affected assets owned by New Zealand residents rather than liabilities. Government reserves were reduced by $3.1 billion in the quarter. Statistics New Zealand comments: "The fall in reserve assets was mainly due to The Treasury switching from foreign short-term debt securities to New Zealand based assets ahead of the March 2019 government bond maturity." Without the valuation changes, the net liabilities would have been $157.7 billion. New Zealand's international debt was $295.9 billion (other than shares; equivalent to 100.9 percent of GDP), of which 33.6 percent is due within 12 months, compared to $144.4 billion in financial assets (49.2 percent of GDP), leaving a net debt of $151.6 billion (51.7 percent of GDP). Of the net debt, $4.4 billion was owed by the government including the Reserve Bank, and $115.6 billion by the banks (39.4 percent of GDP), which owed $159.6 billion gross.

- In international trade in services, exports amounted to $24.9 billion in the year to December 2018, of which over half ($15.9 billion) was Travel and another $3.3 billion was Transportation. Services imports were valued at $20.1 billion, leaving a surplus on services of $4.8 billion for the year. The largest areas of imported services were $4.8 billion in Transportation, $6.7 billion in Travel, $1.5 billion in Insurance and pension services, $0.5 billion in Financial Services, $1.3 billion in Charges for the use of intellectual property (such as franchises, trademark licensing and royalties), $1.3 billion in Telecommunication, computer, and information services (mainly computer services), and $3.3 billion in a variety of Other business services.

★ Overseas Merchandise Trade for the month of March 2019 saw exports of goods rise in value by 18.7 percent from the same month last year while imports fell 3.5 percent. This contributed to a trade surplus for the month of $922 million or 16.2 percent of exports, the second highest on record, following a series of high deficits in four of the previous six months. There was a trade deficit for the year of $5.6 billion or 9.6 percent of exports. In seasonally adjusted terms, exports rose 11.5 percent or $568 million over the month (following on from a 6 percent increase the previous month) with rises led by Fruit (up 44.8 percent or $101 million), Dairy products (up 7.4 percent or $98 million), Meat (up 7.4 percent or $48 million), Mechanical machinery and equipment (up 29.2 percent or $39 million), Crude oil (up 168.7 percent or $34 million, not seasonally adjusted), and Logs and wood (up 3.1 percent or $15 million), offset by a fall in Seafood (down by 10.0 percent or $16 million). Seasonally adjusted imports fell 1.3 percent or $70 million below the previous month, leaving a trade surplus of $201 million following a $437 million deficit in the previous month. The fall in imports was led by Textiles (down 26.9 percent or $73 million), and Mechanical machinery and equipment (down 3.5 percent or $24 million), offset by increases in Petroleum and products (up 4.8 percent or $24 million, not seasonally adjusted), and Electrical machinery and equipment (up 1.8 percent or $8 million). In the year to March, 25.2 percent of New Zealand's exports went to China, 15.4 percent to Australia, 9.5 percent to the US, and 61.8 percent went to the top six countries buying New Zealand exports. This compares with 22.4 percent going to China in the previous year, and 60.0 percent going to the top six destinations. Over the same period, 19.9 percent of New Zealand's imports came from China (compared to 19.2 percent in the previous year), 11.3 percent from Australia, 10 percent from the US, and 58.1 percent from the top six countries selling to New Zealand, compared to 57.4 percent a year before. There were trade surpluses with China ($1.99 billion) and Australia ($1.75 billion) but deficits with most other major trading partners.

- The Retail Trade Survey for the three months to December 2018 showed retail sales rose 3.5 percent by volume and 4.5 percent by value compared with the same quarter a year ago. They rose 1.7 percent by volume and 1.8 percent by value in the quarter, seasonally adjusted. The fastest rises by seasonally adjusted value over the quarter were in Pharmaceutical and other store-based retailing (up 10.2 percent), Food and beverage services (up 5.0 percent), Accommodation (up 3.8 percent), Electrical and electronic goods (up 3.6 percent), Clothing, footwear and accessories (up 3.1 percent), and Non-store and commission-based retailing (including online retailing: up 3.1 percent). Sales fell in four categories: Recreational goods (down 2.2 percent), Department stores (down 1.9 percent), Hardware, building and garden supplies (down 1.9 percent), and Furniture, floor coverings, houseware, textiles (down 0.4 percent). By far the largest category, Supermarket and grocery stores, rose 1.7 percent.

- ★ The Performance of Manufacturing Index for March 2019 was 51.9, a fall from 53.4 in the previous month. The employment sub-index was at 51.9, up from 50.8 in the previous month.

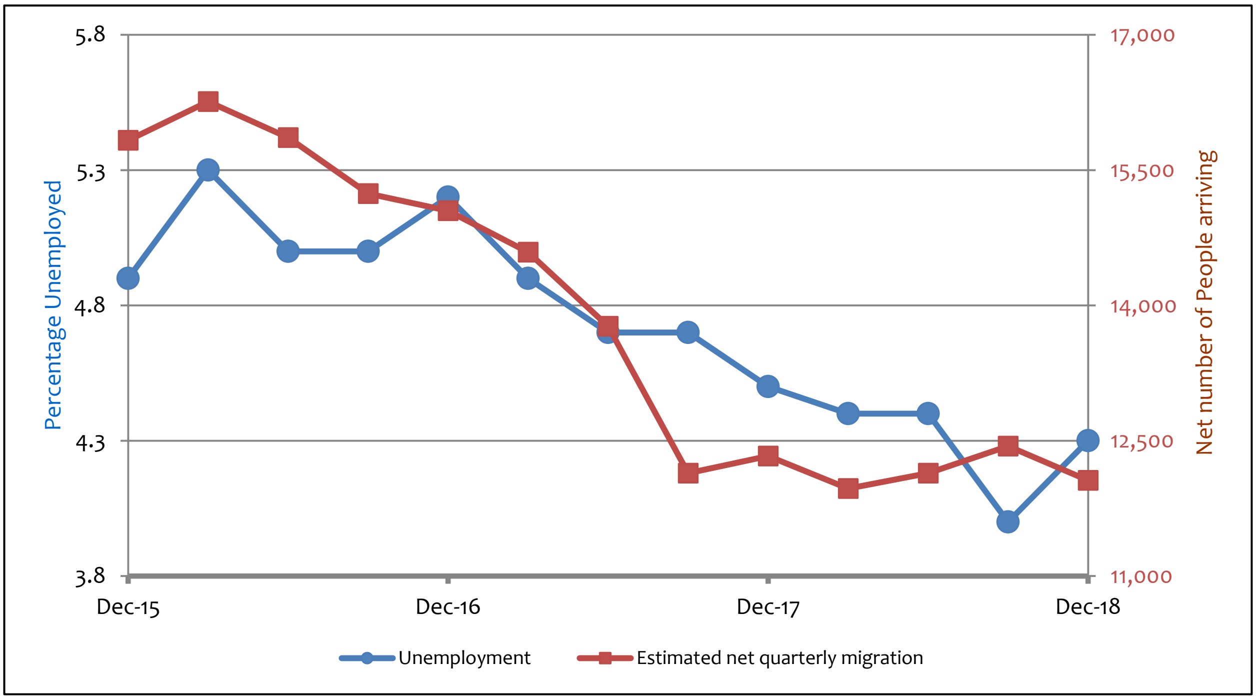
- ★ The Performance of Services Index for March 2019 was 52.9, down from 53.6 the previous month. The employment sub-index was 50.9, down from 51.8 the previous month.

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 27 March 2019, the Reserve Bank left the Official Cash Rate (OCR) at its record low of 1.75 percent. However it surprised many observers by making clear that any future movement was likely to be further downward: "Given the weaker global economic outlook and reduced momentum in domestic spending, the more likely direction of our next OCR move is down." It said: "The balance of risks to this outlook has shifted to the downside. The risk of a more pronounced global downturn has increased and low business sentiment continues to weigh on domestic spending. On the upside, inflation could rise faster if firms pass on cost increases to prices to a greater extent." The Bank's view was still that "Employment is near its maximum sustainable level. However, core consumer price inflation remains below our 2 percent target mid-point, necessitating continued supportive monetary policy." Its concerns about the international situation appear to have grown somewhat: "The global economic outlook has continued to weaken, in particular amongst some of our key trading partners including Australia, Europe, and China. This weaker outlook has prompted central banks to ease their expected monetary policy stances, placing upward pressure on the New Zealand dollar." It saw slowing domestic growth in 2018 noting "softness" in the housing market and weak business investment. The support for the economy would come from "ongoing low interest rates, and increased government spending and investment" which together with employment growth "should support household spending and business investment". It singled out "Government spending on infrastructure, housing, and transfer payments" as supporting domestic demand. It repeated the past incantation that "as capacity pressures build", the Bank expects CPI to rise to 2 percent. 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 8 May 2019 and will accompany a Monetary Policy Statement.

★ According to REINZ, over the year to March the national median house price rose $25,000 or 4.5 percent to $585,000 and REINZ's house price index rose 2.3 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 1.9 percent seasonally adjusted while the house price index fell 0.1 percent. In Auckland over the year the median price was down $24,000 or 2.7 percent to $856,000 while the house price index fell 2.9 percent. Over the month, Auckland's median price was down 5.3 percent seasonally adjusted, and the house price index fell 0.5 percent. Excluding Auckland, over the year the national median price rose $31,000 to $491,000 or 6.7 percent while the house price index rose 7.2 percent. Over the month the median price excluding Auckland was down 2.2 percent seasonally adjusted, and the house price index rose 0.2 percent. There were record median prices in Hawke's Bay (up 10.8% over the year to $493,000), Otago (up 21.6% to $492,000) and Southland (up 25 percent to $300,000). Median prices rose over the year in 12 of REINZ's 14 regions except Auckland (down 2.7 percent) and the West Coast (down 4.2 percent), the fastest rise being 25 percent in Southland, followed by 21.6 percent in Otago. Seasonally adjusted median prices rose over the month only in Northland (up 0.1 percent), Hawke's Bay (up 3.3 percent), West Coast (up 1.3 percent), Otago (up 6.0 percent) and Southland (up 3.0 percent). Sales fell in 11 of the 14 regions over the month, seasonally adjusted, while over the year, sales fell in all but four of the regions, averaging a fall of 8.8 percent.

Employment



The December 2018 Household Labour Force Survey, from which the employment statistics below are derived, was affected by adjustments that make many of the changes in this quarter "unrealistic" according to Statistics New Zealand. The adjustments were due to additional questions asked with for the 2018 Survey of Working Life (last run in 2012). Statistics New Zealand advises as follows:

> Some seasonally adjusted employed and "Not In the Labour Force" (NILF) series … (eg the number of people employed, broken down by age; underemployment; and youth not in employment, education, and training series)… may show unrealistic movements this quarter. We recommend users exercise caution when considering the latest data and focus on longer-term trends. In addition, all actual employed and NILF series, including all age, ethnicity, industry, occupation, and regional breakdowns, should be used with caution.

For further details see https://www.stats.govt.nz/information-releases/labour-market-statistics-december-2018-quarter which also provides a link to a full list of affected series in HLFS data collection in DataInfo+.

The change to migration collection methods which has led to significant differences in estimates of permanent and long term migration (see below) are not yet reflected in these employment statistics. It is expected to be a year before they will be, and at that time may lead to further revisions.

- According to the Household Labour Force Survey (HLFS) the seasonally adjusted **unemployment** rate in the December 2018 quarter rose to 4.3 percent or 120,000 people, compared to a revised 4.0 percent three months before (110,000 people). If it were the 3.3 percent it was in December 2007, 28,000 more people would have jobs. The seasonally adjusted female unemployment rate rose to 4.2 percent from 4.0 percent three months before, lower than for men (4.4 percent) whose unemployment rate rose from 3.9 percent. Māori unemployment fell from 9.0 percent a year before to 8.2 percent in December 2018, while Pacific people's unemployment rose from 7.7 percent to 8.5 percent over the year. Compared to OECD unemployment rates, New Zealand fell from 9th to 14th equal lowest (out of 35 countries). However New Zealand's remained the third-highest employment rate for 15-64 year olds at 77.6 percent.

- **Youth unemployment** for 15-19 year olds was 21.9 percent in December 2018, up from 14.5 percent three months before, and from 20.5 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. *Take particular note of the warning in the box above.)* For Māori 15-19 year olds in December 2018, the unemployment rate was 26.7 percent, up from 24.9 percent a year before. For 15-19 year old Pacific Peoples it was 36.1 percent, down from 32.5 percent a year before. For 20-24 year olds, youth unemployment was 8.5 percent, up from 6.4 percent three months before, and from 8.3 percent a year before. For Māori 20-24 year olds the unemployment rate was 8.9 percent, unchanged from 8.9 percent a year before. For 20-24 year old Pacific Peoples it was 11.1 percent, down from 11.9 percent a year before. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) was 11.4 percent, up from 7.6 percent three months before and up from 8.5 percent a year before. For Māori 15-19 year olds the rate was 18.7 percent, up from 12.4 percent a year before and for Pacific Peoples it was 14.5 percent, up from 12.1 percent a year before. For 20-24 year olds the NEET rate was 16.5 percent, up from 12.5 percent three months before and from 14.3 percent a year before. For Māori 20-24 year olds the NEET rate was 24.6 percent, up from 21.5 percent a year before, and for Pacific Peoples it was 22.4 percent, up from 21.9 percent a year before. For the whole 15-24 year old group, unemployment was higher for those in education (19.4 percent) than those not in education (10.5 percent). There were 95,000 people aged 15-24 years who were not in employment, education, or training (NEET), seasonally adjusted, up from 69,000 three months before, and from 78,000 a year before.

- By **region**, in December 2018, in the North Island, Manawatu/Whanganui had the worst regional unemployment rate at 6.0 percent, up from 5.7 percent a year before, and Northland was next at 5.5 percent unemployment compared to 5.6 percent a year before. All other North Island regions had unemployment rates at or under 5 percent, with Waikato the lowest at 3.4 percent (down from 4.9 percent a year before) and all but Auckland (4.3 percent, up from 4.1 percent) and Wellington (4.5 percent, up from 3.7 percent) with lower rates than a year before. All South Island regions had unemployment below 5 percent with average unemployment in the South being 3.9 percent compared to 4.5 percent in the North. In Tasman/Nelson/Marlborough/ West Coast unemployment was 4.4 percent, up from 3.5 percent a year before, in Canterbury it was 3.8 percent, down from 4.0 percent a year before, in Otago it was 3.6 percent, down from 4.5 percent a year before, and in Southland 4.2 percent, up from 3.7 percent a year before.

- There were 32,500 unemployed people in December 2018 who had been **out of work for more than 6 months** compared to 36,700 a year before. This is 27.0 percent of the unemployed compared to 30.3 percent a year before, but is still at a much higher level than the mid-2000s. Those out of work for more than a year are 10.5 percent of the unemployed compared to 13.5 percent a year before.

After rising until 2016, the proportion of long-term unemployed appears to have peaked and is moving 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 December 2018 quarter there were a total of 351,000 people looking for work classed as "underutilised", or 12.1 percent of the labour force extended to include these people, in seasonally adjusted terms. Of them, 119,000 were underemployed, 120,000 were officially unemployed, and 112,000 were additional jobless people looking for work. The 12.1 percent underutilisation rate is up on the previous quarter (seasonally adjusted 11.4 percent) and unchanged from 12.1 percent a year before. It is higher for women at 14.5 percent than for men (10.0 percent).
- The number recorded as **employed** rose by just 2,000 over the three months to December 2018 (seasonally adjusted). It rose by 24,500 over the year. The employment rate fell to 67.8 percent over the three months from 68.2 percent. It was 63.0 percent for women and 72.9 percent for men. The participation rate (the proportion of the working age population – those aged 15 years and over – either in jobs or officially unemployed) was almost unchanged at 70.9 percent compared to 71.0 percent three months before.
- **By industry**, the actual fall in employment of 3,900 in the three months to the December 2018 quarter (not seasonally adjusted) was made up of both gains and losses. The largest gains were of 7,500 in Transport, postal, and warehousing, and 3,500 in Retail trade, and accommodation, and food services. The largest losses were 16,300 in Health care and social assistance, 8,100 in Education and training, 7,100 in Manufacturing, 3,800 in Wholesale trade, and 2,000 in Construction. Over the year, the biggest contributors to the 24,500 additional jobs were 11,900 in Transport, postal, and warehousing, 11,800 in Arts, recreation and other services, 10,200 in Retail trade, and accommodation, and food services, 6,700 in Public administration and safety, and 6,000 in Health care and social assistance. The largest losses were 14,700 in Agriculture, forestry and fishing, 13,100 in Construction, 11,100 in Manufacturing, 10,400 in Wholesale trade, and 6,500 in Education and training.
- In the December 2018 quarter, total **union membership** was estimated at 407,300, a 1.0 percent fall from 411,500 in the previous quarter but up 2.6 percent from 397,000 a year before. The membership is 18.8 percent of employees compared to 19.1 percent three months before and 18.7 percent a year before. Women make up 58.7 percent of the membership compared to being 49.4 percent of all employees. As a result, the proportion of female employees who are in unions is higher than for males: 22.4 percent compared to 15.4 percent. The increase in numbers was greater for females (up 4.1 percent over the year) than males (up 0.5 percent) so the pay equity settlement is a strong factor (see the industry breakdown below), but not the only one. The membership changes were not evenly spread across age groups: the membership of 15-24 year olds fell 9 percent in the year and fell 3 percent in the quarter, 25-34 year olds rose 18 percent in the year and 4 percent in the quarter, 35-44 year olds rose 12 percent in the year and 0 percent in the quarter, 45-54 year olds fell 13 percent in the year and 5 percent in the quarter, 55-64 year olds rose 2 percent in the year but fell 2 percent in the quarter, and 65+ year olds rose 11 percent in the year but fell 1 percent in the quarter. The union membership growth mainly came from Public Administration and Safety, which

increased 9,900 or 20 percent over the year. Health Care and Social Assistance increased 900 or 1 percent while Manufacturing fell by 6,400 or 13 percent over the year. There was a mixture of rises and falls in other industries, but they are unlikely to be statistically meaningful. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends.

- In the December 2018 quarter, total **collective employment agreement** coverage was estimated at 413,800 employees, which makes 19.1 percent of employees who said their employment agreement was a collective compared to 19.0 percent three months before and 18.4 percent (389,800) a year before. An estimated 69.3 percent (1,500,900) said they were on an individual agreement compared to 69.1 percent three months before and 67.8 percent a year before, and 5.5 percent or 118,300 said they had no agreement (which is illegal), compared to 5.6 percent three months before and 6.6 percent a year before. A further 6.0 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 16.1 percent for men and 22.2 percent for women. All age groups except 45-54 year olds rose in membership of collective agreements over the year, though some fell during the quarter. Those aged 15-24 rose 8 percent in the year and 9 percent in the quarter, 25-34 years rose 21 percent in the year and 1 percent in the quarter, 35-44 year olds rose 10 percent in the year and 2 percent in the quarter, 45-54 year olds fell 8 percent in the year and fell 3 percent in the quarter, 55-64 year olds rose 5 percent in the year but fell 0 percent in the quarter, and members aged 65+ rose 15 percent in the year and 1 percent in the quarter. Density rose for all but the 45-54 year old age group over the year. By industry, collective membership grew over the year by 9,400 or 20 percent in Public Administration and Safety. Education grew 2,500 or 3 percent, Health Care and Social Assistance, 3,400 or 4 percent, Manufacturing fell by 5,000 or 11 percent, and most other industries had increases (though they are unlikely to be statistically significant).

- By **employment relationship**, in the December 2018 quarter, 89.7 percent of employees (1,972,200) reported they were permanent, 5.4 percent casual (116,700), 2.5 percent fixed term (53,400), 1.2 percent seasonal (26,900), and 0.4 percent employed through a "temporary agency" (9,600). The proportion reporting they were permanent was down from 91.5 percent (1,974,400) three months before and from 89.8 percent (1,906,500) a year before. Women were slightly less likely to be permanent employees: 88.9 percent of women were permanent compared to 90.5 percent of men. Instead, women were more likely to be casual (6.2 percent of them compared to 4.6 percent of men) or fixed term (2.9 percent of women compared to 2.0 percent of men). However more men were in seasonal work than women – 1.7 percent of men compared to 0.8 percent of women. Of the temp agency employees, 4,500 were men and 5,000 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, starting in June 2016 with 63,600 and in December 2018 down to 53,800 though there was a sharp upturn in the last quarter. The number of Temporary Agency employees has increased in the same period from 6,600 to 9,600, 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 December 2018 quarter, 24.1 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 33.4 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 16.6 percent had been in their job for at least five but less than ten years, and 25.0 percent had been in their jobs for 10 years or more. Women appeared to be somewhat more likely to have been in their jobs for a shorter time than men. For example, 26.7 percent of men had been in their jobs for more than 10 years, but only 23.0 percent of women. Age is a significant factor as would be expected: 55.8 percent of people aged 15 to 24 had been in their jobs for less than a year, and 30.2 percent of 25-34 year olds, but only 14.5 percent of 45-54 year olds and 10.8 percent of 55-64 year olds. Small differences may not be statistically significant.

★ The Ministry of Social Development reports that at the end of March 2019 there were 131,720 working age people on the Jobseeker benefit, 12,965 more than a year before but 2,328 fewer than three months before. At that time, 72,185 were classified as 'Work Ready', and 59,535 were classified as 'Health Condition or Disability'. A total of 286,450 were on 'main' benefits, 13,063 more than a year before, with numbers of all other than those on Jobseeker Support relatively stable: Sole Parent Support benefits were down just 6, Supported Living Payments were up 30 and Other Main Benefits were up 74. There were 12,895 fewer on main benefits than three months earlier, mainly because of the seasonal fall in "Jobseeker Support Student Hardship" benefits, which rose to 8,934 at the end of December and then fell back to 94 at by the end of March, but also helped by the reduction in numbers on Jobseeker benefits and 1,046 fewer on Sole Parent Support. Of the 48,354 benefits cancelled during the three months to March, 20,511 or 42.4 percent of the people obtained work, 11.6 percent transferred to another benefit and 13.6 percent became full time students. A further 2,517 (5.2 percent) left on their 52 week reapplication or annual review. A total of 10,190 suffered sanctions (down 30.7 percent on a year before), the majority (8,993) on a Jobseeker benefit. Of the people sanctioned, 47.0 percent were Māori, though only 36.3 percent of working-age benefit recipients were Māori.

★ International Migration

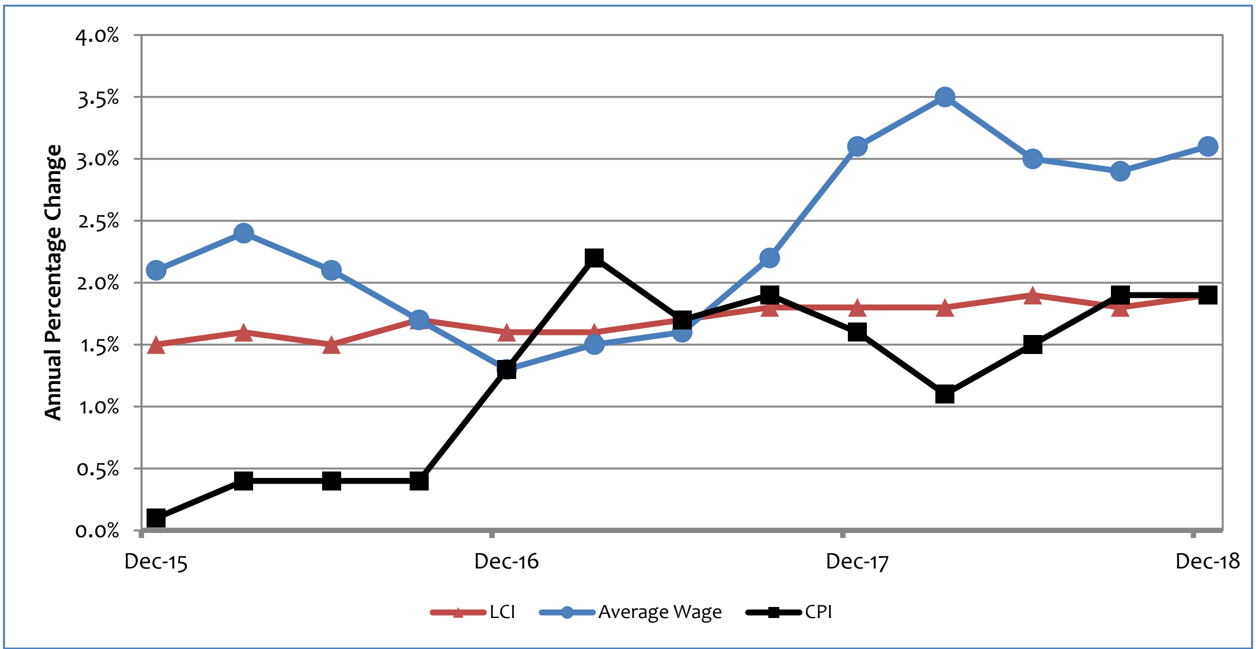
> As from November 2018, permanent and long term migration is being estimated in a significantly different way by Statistics New Zealand. Previously it was based on intentions shown on arrival and departure cards filled in as people crossed our borders. Now they are based on observed behaviour: they 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.

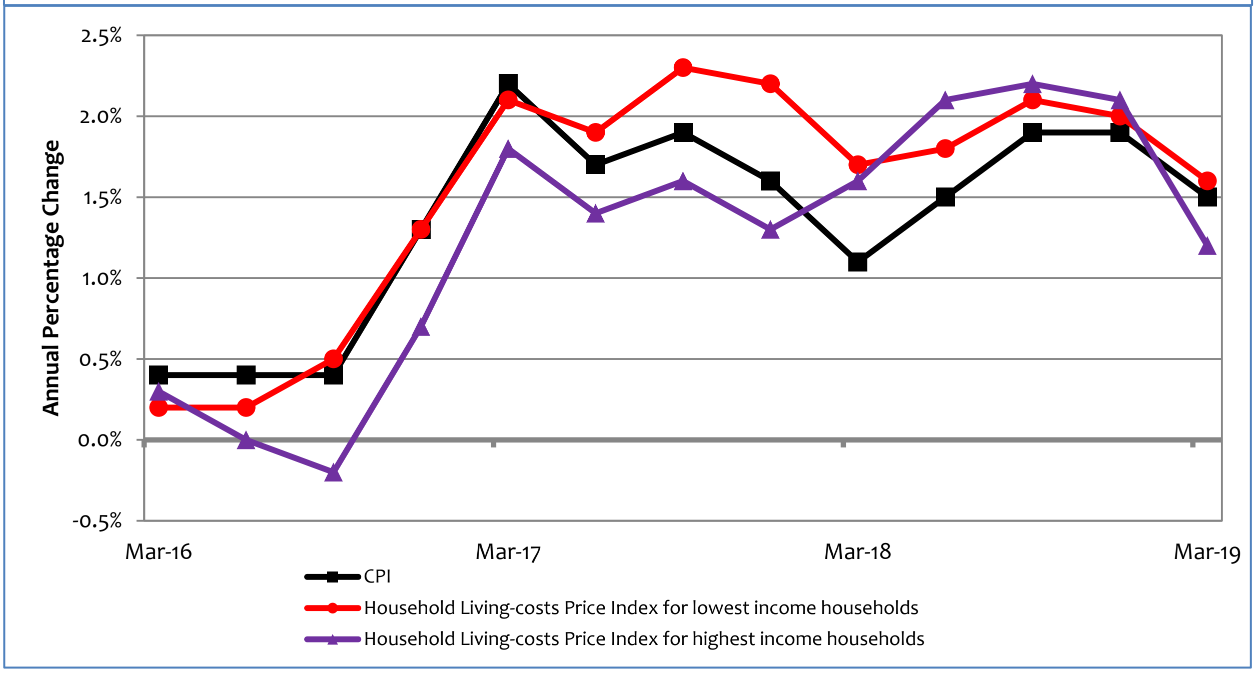
There were a provisionally estimated 13,230 permanent and long-term arrivals to New Zealand in February 2019 and 6,660 departures in seasonally adjusted terms, a net gain of 6,570 which was higher than the (revised) 6,100 estimated for the previous month. There was a seasonally adjusted net loss of 70 New Zealand citizens, compared to a loss of 790 the previous month, and a net gain of

6,640 other citizens, compared to 6,890 the month before. There was an estimated actual net gain of 61,576 migrants in the year to February, up from 51,645 in the year to February 2018. (This illustrates the difference between the new and old ways of estimating migration numbers: the new net gain of 61,576 is close to the highest, 61,781, for February years in the last decade; under the old method the estimate would have been a net gain of only 44,333, easily the lowest in the decade.) In February, 7.7 percent of the arrivals had residence visas, 30.3 percent student visas, 17.7 percent work visas, and 20.8 percent visitors. A further 22.5 percent were New Zealand or Australian citizens.

★ Job Vacancies Online for the three months to March 2019 showed the seasonally adjusted number of job vacancies rose by 1.1 percent in the quarter and rose 5.6 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 0.8 percent while semi-skilled vacancies rose 3.1 percent and unskilled vacancies fell 1.8 percent, while over the year, highly skilled vacancies rose 6.7 percent while semi-skilled vacancies rose 4.9 percent and unskilled vacancies rose 4.8 percent. Over the quarter, vacancies in Auckland were up 0.7 percent, Bay of Plenty 3.6 percent, Gisborne/Hawke's Bay 1.7 percent, Marlborough/Nelson-Tasman/West Coast 1.3 percent, Otago/Southland 1.5 percent, Waikato 0.6 percent, and Wellington 4.7 percent, while vacancies in Canterbury were down 0.6 percent, Manawatu-Whanganui/Taranaki down 0.1 percent, and Northland down 3.5 percent. By industry for the quarter, vacancies rose fastest in IT (up 5.5 percent) and Hospitality (up 3.3 percent), while they fell 6.1 percent in Primary industries and 1.7 percent in Sales. Over the year IT also leads (up 16.1 percent) followed by Health (11.9 percent), Hospitality (5.6 percent) and Education (5.2 percent). By occupation, vacancies for Managers and for Technicians and Trades both rose by 3.0 percent over the quarter, followed by Community and Personal services up by 2.7 percent, while Sales vacancies fell 2.0 percent and Machinery drivers were down 2.3 percent. Over the year, the fastest growing vacancies were for and Community and Personal services (up 9.6 percent), followed by Professionals (up 8.2 percent), Clerical and Administration (up 7.4 percent) and Managers (up 4.9 percent).

Wages and prices





- The Labour Cost Index (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to December 2018 and increased 1.9 percent in the year. The annual increase was equal to the 1.9 percent increase in the CPI. The LCI increased 0.7 percent in the public sector and 0.5 percent in the private sector in the three months. Over the year it rose 1.7 percent in the public sector and 2.0 percent in the private sector. Statistics New Zealand reports that "The key influence for higher private sector wages was the retail industry. This was partly due to the minimum wage increase in April 2018." The annual increase in the public sector "reflected the remaining two-thirds of the nurses' pay settlement, which came into effect in August 2018". During the year, 44 percent of jobs surveyed did not receive a pay rise, and 45 percent of private sector jobs got no rise. For the 56 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.7 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 2.1 percent and in the private sector 2.9 percent; the average increase in the public sector was 3.0 percent and in the private sector 4.0 percent. We estimate that over the year, jobs on collective employment agreements were 1.9 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 51 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 December 2018 found the average hourly wage for ordinary-time work was $31.63, up 0.9 percent on the previous quarter and up 3.1 percent over the year, significantly more than the 1.9 percent rise in the CPI. Female workers (at $29.45) earned 12.1 percent less than male workers (at $33.51) for ordinary time hourly earnings. This pay deficit has fallen from 13.2 percent two years ago in December 2016. The average ordinary-time wage was $29.66 in the private sector, up 1.0 percent in the quarter and 3.7 percent in the year. In the public sector the average ordinary-time wage was $39.54 which was up 0.6 percent in the quarter and up 1.8 percent in the year. Average total hourly wages (including overtime) ranged from $20.48 in Accommodation and food services and $22.40 in Retail trade, to $45.05 in Finance and insurance services, and $40.20 in Information, media and telecommunications. In Accommodation and food services, 57.6 percent of employee jobs were part time, and in Health care and social assistance 42.2 percent were part time; in Retail trade 40.2 percent were part time; 38.0 percent were also part time in Arts, recreation and other services; 33.4 percent in Education and training; 25.7 percent in Rental, hiring, and real estate services; and 25.0 percent in Professional, scientific, technical, administration and support services. Together these seven industries made up 82.5 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 March 2019 quarter compared with the December 2018 quarter. It was steady in seasonally adjusted terms. It increased 1.5 percent in the year to December, down from 1.9 percent in the year to December. For the quarter, the largest single upward influence was Alcohol and Tobacco, which rose 4.7 percent, most of which came from a 9 percent rise in Cigarettes and Tobacco prices largely due to the annual increase in excise duties. Next came Food which rose 1.2 percent, driven by a 5.4 percent increase in Fruit and Vegetable prices. Housing and household utilities (up 0.6 percent) continued to be a significant factor, mainly due to rising rents (up 0.6 percent) and the cost of new housing (up 0.7 percent, varying from 0.1 percent in Wellington to 0.3 percent in Canterbury and 0.8 percent in Auckland). Increases in housing costs also came from a further increase of 1.8 percent in house insurance and 0.1 percent in contents insurance over the quarter, though mortgage interest rates (not in the CPI) continue to fall – by 1.6 percent (note – not 1.6 percentage points) in the quarter according to Statistics New Zealand. There were also some significant negative contributions bringing down the rise in the overall index. Transport costs fell 3.7 percent from the previous quarter, largely driven by a 7 percent decrease in petrol prices and an 11.8 percent drop in international airfares. Over the year, Housing and household utilities, Alcohol and Tobacco, and Food were the three largest contributors to the rise, responsible for 51.9 percent, 21.4 percent and 16.3 percent of the rise respectively. In Housing and household utilities, which rose 3.0 percent overall, rents rose 2.4 percent, purchase of new housing rose 3.9 percent, property maintenance rose 2.2 percent, property rates and related services rose 4.6

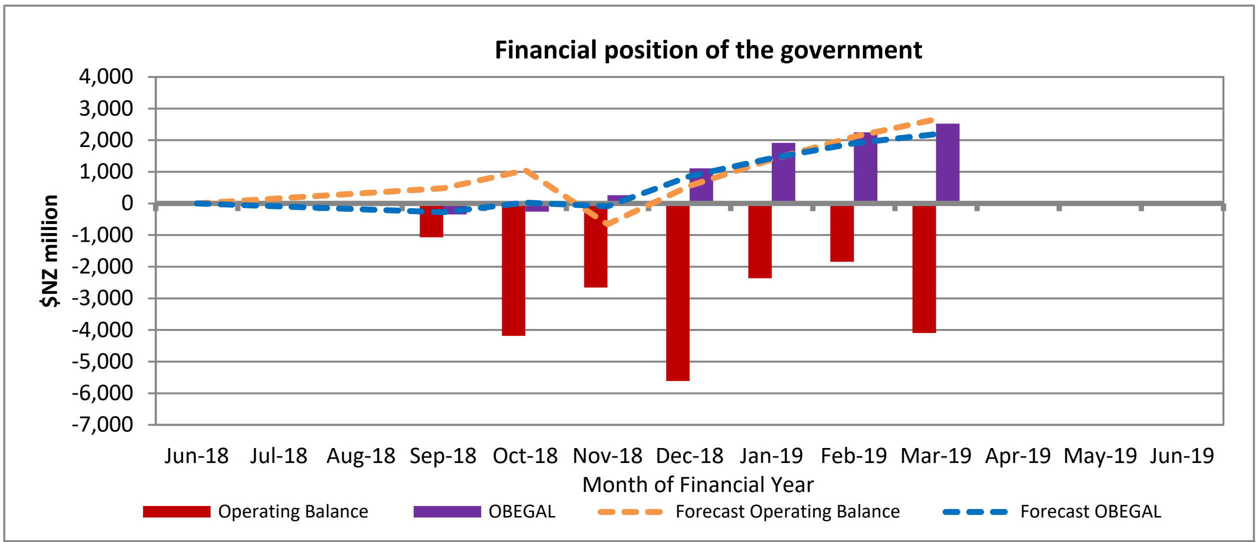
percent, and household energy rose 2.7 percent. In addition, house insurance rose 13.1 percent and contents insurance rose 2.4 percent though mortgage interest fell 3.4 percent. In Food, which rose 1.3 percent overall, the biggest impact was an increase in prices for restaurant and ready-to-eat meals, up by 2.9 percent, followed by grocery food prices, up by 1.1 percent, and the cost of meat, poultry, and fish up by 2.1 percent. Rents rose fastest in Wellington (up 3.3 percent for the year) and slowest in Canterbury (up 0.6 percent for the year). In seasonally adjusted terms, CPI showed no increase over the last three months, Food rose 0.2 percent, Alcoholic beverages and tobacco rose 1.6 percent, Clothing and footwear rose 0.4 percent, Housing and household utilities rose 0.8 percent, Communications fell 0.9 percent, Recreation and culture fell 0.3 percent, and Education rose 0.8 percent. Over the year, in Auckland consumer prices rose 1.2 percent, in Wellington they rose 1.3 percent and they rose 1.6 percent in the North Island other than Auckland and Wellington. Inflation in Canterbury for the year was 1.7 percent and prices rose 1.8 percent in the rest of the South Island.

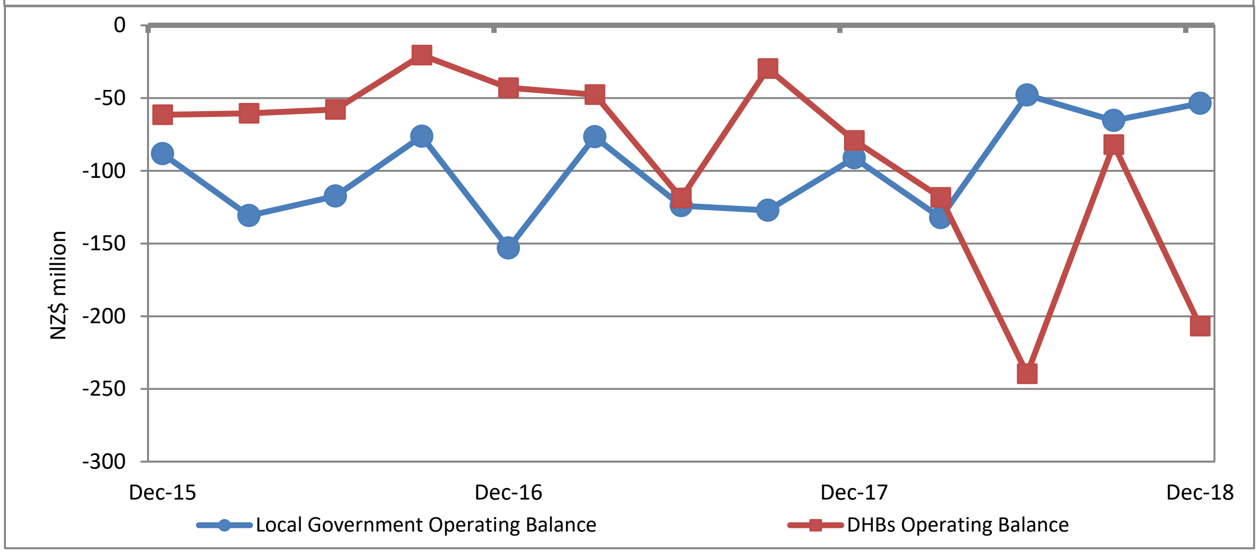
★ The Household Living-costs Price Indexes (HLPIs) for the year to March 2019 showed a return to a trend of lower income households facing the highest increases in living costs. The lowest income households experienced a 1.6 percent increase in living costs over the year while the highest income households saw an increase of only 1.2 percent (compared to rises of 2.0 percent and 2.1 percent respectively in the year to December). By expenditure, the lowest spending households had their living costs increase by 1.7 percent over the year while the highest spending households had an increase of 1.1 percent. Over the year, the All-households HLPI rose 1.4 percent, the Beneficiary households index rose 1.8 percent, the Māori households index rose 1.4 percent, and the Superannuitant households index rose 1.8 percent. By income quintile, the index for the lowest income households (quintile 1) rose 1.6 percent, quintile 2 rose 1.4 percent, quintile 3 rose 1.2 percent, quintile 4 rose 1.2 percent, and quintile 5 (the highest income) rose 1.2 percent. Ranking households by expenditure quintile showed a similar pattern, as the costs of the lowest spending quintile (quintile 1) rose by 1.7 percent, quintile 2 rose by 1.6 percent, quintile 3 rose by 1.3 percent, quintile 4 rose by 1.2 percent, and quintile 5 (the highest spending) rose by 1.1 percent. Over the quarter, the All-households HLPI rose by 0.1 percent, the Beneficiary households index rose 0.6 percent, the Māori households index rose 0.4 percent, and the Superannuitant households index rose 0.3 percent. By income quintile, over the quarter the index for the lowest income households (quintile 1) rose 0.3 percent, quintile 2 rose 0.1 percent, quintile 3 rose 0.1 percent, quintile 4 rose 0.0 percent, and quintile 5 rose 0.0 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.5 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.1 percent, quintile 4 fell 0.2 percent, and quintile 5 fell 0.2 percent.

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

★ The Food Price Index rose 0.5 percent in the month of March 2019 but it was steady in seasonally adjusted terms. Food prices rose 1.2 percent in the year to March 2019. Compared with the previous month, fruit and vegetable prices rose 3.7 percent (and were up 1.9 percent seasonally adjusted); meat, poultry, and fish fell 1.3 percent; grocery food prices were up 0.6 percent (and also up 0.6 percent seasonally adjusted); non-alcoholic beverage prices fell 0.6 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 nine months to 31 March, core Crown tax revenue was $542 million (0.9 percent) lower than forecast in the December 2018 Half Year Economic and Fiscal Update (HYEFU 18). This was mainly because corporate tax was $0.2 billion below forecast, and GST was $0.4 billion below forecast primarily due a timing issue. Overall core Crown revenue was $475 million or 0.7 percent below forecast. Core Crown expenses were $583 million (0.9 percent) below forecast, of which $0.2 billion was due to education spending being lower than expected due to "demand-driven factors across all sectors", and Social assistance benefits were also below forecast. The resulting $2.5 billion surplus in the Operating Balance before Gains and Losses (OBEGAL) was $329 million more than forecast. This was "primarily driven by the Crown Entity sector with the largest impact relating to the Earthquake Commission". Meanwhile the Operating Balance, a $4.1 billion deficit, was $6.8 billion below the forecast $2.7 billion surplus. This was driven by net losses of $6.7 billion largely due to reductions in the discount rate used to value long term liabilities (such as for future ACC claims) and unfavourable movements in exchange rates. Net debt at 20.6 percent of GDP ($60.5 billion) was $0.9 billion lower than forecast. Gross debt at $85.4 billion (29.1 percent of GDP) was $1.9 billion above forecast. The Crown's net worth in financial terms was $7.0 billion lower than forecast at $125.9 billion, mainly due to the lower operating balance. Note that the above debt figures are for the Core Crown; total debt was $12.5 billion, $1.1 sbillion (1.0 percent) lower than forecast.

- ★ District Health Boards had 801 fewer full time equivalent staff than planned at the end of January 2019 (66,660 compared to 67,461 planned). Only Nursing Personnel had more staff (299) than planned, but these were offset by shortfalls in Medical Personnel (doctors) who were 222 fewer than planned, Allied Health Personnel (547 short), Management/Administration staff (222 short), and Support Personnel (110 short). Average costs per full time equivalent staff were very close to plan ($99,900 compared to $99,100 planned). The DHBs had accumulated combined deficits of $230.5 million in the six months to January 2019. This is $37.2 million worse than their plans. The Funder arms were in surplus by $60.7 million, $27.8 million more than the $32.9 million surplus planned, and Provider arms (largely their hospitals) in deficit by $293.8 million, $67.0 million worse than planned. The Northern region was $10.4 million behind plan with a deficit of $52.5 million and all four DHBs in deficit including Counties Manukau with a $29.2 million deficit. The Midland region was $12.0 million behind plan with a deficit of $60.1 million and all of the five DHBs in deficit including Waikato with a deficit of $33.5 million. Central region was $5.0 million behind plan, with a combined $42.9 million deficit and all of the six DHBs in deficit. The Southern Region was $9.8 million behind plan with a $74.9 million deficit and all five DHBs in deficit, with Canterbury showing a $47.6 million deficit and Southern $22.8 million. Overall, none of the 20 DHBs were in surplus and only four were ahead of plan. The DHB furthest ahead of plan was Hutt Valley by $3.9 million though with a deficit of $2.0 million, and Auckland was furthest behind, by $11.2 million with a deficit of $11.4 million. Capital expenditure across all DHBs was $154.8 million behind plan with $229.0 million spent out of $383.8 million planned.

- Local Government in the December 2018 quarter recorded a 0.5 percent ($14.1 million) rise in operating income in seasonally adjusted terms and a 0.1 percent rise in operating expenditure ($2.2 million) including a 2.4 percent rise in employee costs (up $14.5 million) compared to the previous quarter. This resulted in an operating deficit of $53.7 million in the quarter, compared with a deficit of $65.5 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/economicbulletin209. For further information contact Bill Rosenberg.