BUSINESS NZ

PLANNING FORECAST

DECEMBER 2016

BusinessNZ

NZ economy – shaken but not stirred

Executive Summary

The recent earthquake and its aftershocks show once again that NZ is not immune to significant risks beyond our ability to control; it has put any uncertainty about the international outlook into context. A very significant event for the many businesses and households affected by it, the earthquake, and its aftermath raise important issues as to the country's overall resilience to adverse events.

At one level, there has to be an optimal amount of risk management, since nothing is foolproof and the cost of trying to eliminate or achieve very low risk is likely to be prohibitive. The question for many households, businesses and indeed government over the coming months and even years is whether our risk management strategies are appropriate for both the known and, perhaps more difficult, unknown risks facing society, whether as a result of natural disasters (earthquakes, floods etc.), or human-induced - terrorism, food safety risks and so on.

On a more positive note, growth continues in the broader NZ economy and nearly all key indicators point to a respectable growth rate of around 3.5 percent per annum over the forecast period. Treasury's recently-released Half-Year Fiscal and Economic Update (HYFEU) show the Government's books in good shape with improving surpluses in the out-years.

Both the BNZ-BusinessNZ Performance of Manufacturing Index (PMI) and the Performance of Services Index (PSI) continue to show solid growth and, as evidenced by a range of indicators such as accommodation rates, tourism is still really pumping. The recent earthquakes will affect some key South Island destinations, such as Kaikoura, but probably also see tourists seeking alternative destinations. Consequently their impact on tourism in general could be rather more muted than it might have been, although the impact on "potential" tourists could be more problematic. Potential tourists might either delay their holiday plans or possibly seek alternative destinations - always a risk. This possibility highlights the importance of the Government's and businesses' key messages making it clear to the world that New Zealand is still very much open for business.

The construction industry continues to go from strength to strength with some of the resources freed up as the Christchurch rebuild plateaus likely to be deployed in repairing infrastructure damaged during the recent earthquake.

The agricultural sector, and particularly dairy, has shown considerable resilience in weathering the storm of low dairy payouts over the past couple of years; both the Global Dairy Trade (GDT) and Fonterra's forecast payouts are on the up. Fonterra's forecast payout for the current 2016/17 season is now well above what is generally considered the break-even point and surveys are showing farmers' confidence significantly improved, not unexpectedly, given a much more optimistic outlook.

Positive results coming out of the major sectors are reflected in growing consumer confidence driven by factors such as low unemployment, better employment prospects and low inflation. The latter has led to prolonged low interest rates and hence lower debt servicing costs.

But despite the local economy's generally rosy short to medium term outlook, a number of issues still plague the global economy, including movement to greater isolationism and protectionist policies. Brexit's long-term impact and perhaps more importantly, the so-called "Trump effect" on broader trade policy are so far largely unknown. There is much water to flow under the bridge before a clear picture can emerge.

HIGHLIGHTS

The NZ economy continues to prosper with nearly all key indicators pointing to respectable growth of around 3.5 percent per annum over the forecast period.

The BNZ-BusinessNZ Performance of Manufacturing Index (PMI) and its sister survey, the BNZ-BusinessNZ Performance of Services Index (PSI) continue to track firmly in positive territory.

Other sectors, including construction, tourism and the agricultural sector continue to show solid longer-term prospects although the recent earthquakes may put a short-term dent in tourist numbers as holiday makers re-evaluate plans.

Consumers remain upbeat, driven by continued strong employment growth, declines in unemployment, record low interest rates and low inflationary pressures.

At government level, increasingly healthy surpluses are forecast, although the recent earthquakes will take a chunk (estimated around $3 billion) out of the Government's coffers. However this is likely to be largely a "one-off" cost rather than impacting adversely on surpluses over time.

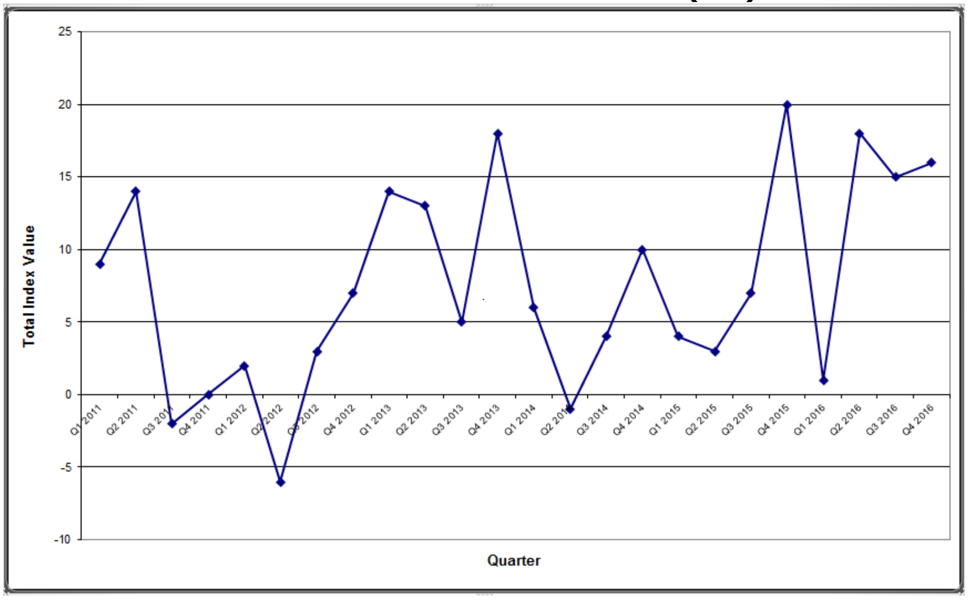
While both businesses and households are displaying relatively strong levels of optimism, the latest earthquakes remind us that we are far from totally in control of our own destiny, and effective risk management strategies are necessary. At the international level, jitters from the ongoing threat of terrorism, the long-term impacts of Brexit and the "Trump" effect on international protectionism all need to be considered.

PART 1: THE NZ ECONOMY – WHERE ARE WE NOW?

BusinessNZ Economic Conditions Index (ECI)

The overall BusinessNZ Economic Conditions Index (a measure of NZ's major economic indicators) sits at 16 for the December 2016 quarter, up 1 on the previous quarter and down 4 on a year ago.[1]

Overall Economic Conditions Index (ECI)



Source: BusinessNZ

Data in the ECI is broken into four key sub-groups:

- Economic growth/performance indicators
- Monetary policy/pricing indicators
- Business/consumer confidence indicators
- Labour market indicators

Of the ECI sub-groups:

Economic growth/performance indicators sit at 5 for the December 2016 quarter, up 2 on the previous quarter, and up 4 on a year ago. Commodity prices are starting to rise but improved prices have been offset to some extent by the continued relative strength of the NZ dollar.

Monetary policy/pricing indicators sit at 2 for the December 2016 quarter, down 2 on the previous quarter and down 6 on a year ago. Inflationary pressures have bottomed out with higher interest rates increasingly likely.

Business/consumer confidence indicators sit at 3 for the December 2016 quarter, the same as for the previous quarter and down 4 on a year ago. Key indicators driving business and consumer confidence continue to point in the right direction although overall household and agricultural debt poses some risk should interest rates rise rapidly.

Labour market indicators sit at 6 for the December 2016 quarter, up 1 on the previous quarter and up 2 on a year ago. Just about all measures of labour market activity continues to improve with record labour force participation rates, relatively strong employment growth and the unemployment rate edging lower. Forward looking indicators of labour market activity including job ads continue to blossom.

[1] The ECI tracks over 30 indicators on a quarterly basis. The overall index value for any particular quarter represents the net balance of the indicators (generally the number increasing minus the number decreasing) thus providing an overall measure of performance. In general, increases in an indicator are seen as positive (e.g. growth in GDP or employment) and declines as negative. However, this is not always the case; for example, declines in unemployment are seen as positive and increases as negative. Because of the recent earthquakes, there has been a delay in the release of some official data from StatisticsNZ which is normally included in the ECI so as a consequence some data has not been updated. Results for the December 2016 quarter are estimates.

PART 2: THE NZ ECONOMY – WHERE ARE WE HEADING?

1.1 Economic growth (GDP) – solid numbers

A solid growth rate of around 345 percent is forecast for the year to December 2017 before drifting back slightly in 2018 (see below).

Forecasts: Real GDP percent Growth

	Years Ending		
	Dec 16	Dec 17	Dec 18
Highest	3.4	3.7	3.6
Average	3.4	3.4	3.0
Lowest	3.3	3.2	2.4

Source: ASB, BNZ and Westpac

Growth is driven across a wide range of sectors whereas in the past success was often focused on only one or two sectors. Current growth is broad-based which is positive for managing risk if one sector faces significant head-winds.

Success in the manufacturing and services sectors is reflected in the latest BNZ-BusinessNZ Performance of Manufacturing Index (PMI) and the Performance of Services Index (PSI) with other sectors showing equally strong growth – such as the overall growth in tourism. The construction sector just keeps trucking on.

The agricultural sector, after taking a big hit over the last couple of years with dairy bearing the brunt, has weathered the storm of low dairy payouts and now has a relatively positive outlook. This is evidenced by a number of surveys showing increased optimism. World dairy prices have risen for the fourth time in a row, taking the Global Dairy Trade (GDT) index to its highest point since June 2014. In November, Fonterra lifted its forecast price payout by 75 cents a kg of milk solids to $6.00.

The relatively bright outlook across all major sectors is reflected in increasing consumer confidence, driven by factors such as better employment prospects, relatively low unemployment, low inflation, lower interest rates and consequently lower debt servicing costs. These developments are increasing households' confidence and are therefore encouraging increased expenditure while relatively strong housing price growth is providing (some) consumers with their own feel good factor.

Net inward migration continues to go from strength to strength driving increased demand across the board while assisting population growth and ensuring the labour market can cope with New Zealand's increased labour demands.

Despite a very positive picture, issues remain both domestically and internationally; these issues could, collectively, have a significant effect on growth projections.

Domestic risks, in no particular order of importance.

First, the recent earthquakes, and associated damage once again show how vulnerable NZ is to natural disasters and raise the ongoing issue of effective management of risk, since risk cannot be totally eliminated and risk minimisation can come only at considerable cost. In this respect it is important to understand that there will always be an optimal amount of risk.

Some have estimated the cost to government of the damage to networks to be around $3 billion, although this is largely a "one-off" cost and will not significantly affect the Government's generally healthy Budget surpluses outlined in the recent Half-Year Economic and Fiscal Update (HYEFU).

A number of local councils have pointed out New Zealand's vulnerability to natural disasters and asked whether there is a case for a centralised risk agency to help them make better decisions on matters such as moving or altering infrastructure, planning for development, and on other mechanisms for effectively managing risk, such as insurance. In many cases disruption to transport links and key port infrastructure can have significant impacts. Even given the propensity for councils, and indeed the wider public affected by natural disasters, to hold their collective hands out for government (taxpayer-funded) assistance when things go pear-shaped, what the councils are suggesting appears to have some validity.

The question remains whether there is justification for such things as significant alternative water supplies or roading networks. The list could go on. It is important to understand that taking into account economic and environmental sustainability of resource use there has to be an "optimal" amount of risk minimisation and regulation. The question of "who pays" is also particularly pertinent as it will influence decision-making over how much risk is acceptable.

Moreover, it should be noted that regulators generally have strong incentives to minimise their own risk by imposing higher standards than might arguably be justified. Because regulators do not bear the costs associated with their decisions (costs will ultimately fall on consumers), they may well over-regulate rather than be aware of, or adequately consider, the cost/quality trade-offs consumers are willing to make.

Second, regulatory risk remains an issue for many businesses with, despite the indications that optimism is shared reasonably widely across most sectors, regulatory issues and uncertainty continuing to hold some industries back from achieving their full potential.

Improving the regulatory framework governing freshwater use (particularly tradability in water rights) and reviewing NZ's Foreign Direct Investment regime to allow for a freer flow of investment, particularly in so-called sensitive land, are both actions that need to be fast-tracked. As well, constraints on land supply for urban development continue to frustrate would-be home buyers. Tinkering around issues such as implementing the National Policy Statement (NPS) on urban capacity is unlikely to seriously move the needle.

Third, the political risk is potentially greater now that the Hon John Key has (unexpectedly) resigned as Prime Minister. The record will show that Mr. Key was very careful to ensure policies were well thought through and that policy proposals would bring a significant degree of stability to the decision-making process. Some will question whether the Government under his watch went fast or far enough on many issues (including contentious issues such as raising the age of entitlement to NZ Superannuation and wider regulatory reform (see above)), but his overall focus was ensuring cohesive government across the board. There is a risk, albeit slim, that the stability and confidence John Key brought to bear on NZ society could be weakened under a new leadership regime. But to be fair, Bill English has had a huge impact behind the scenes on the delivery of fiscally responsible leadership so under his watch it is likely to be largely business as usual.

Fourth, household and agricultural debt continues to grow at an inflated pace, leaving households and farmers vulnerable when interest rates turn upwards as evidence suggests they are already doing.

The more than gradual increase in household and agricultural (largely dairy) debt leaves NZers considerably exposed should asset prices burst and/or interest rates rise significantly.

Bank lending to the dairy sector has now topped $40 billion, accounting for around two-thirds of the $60 billion lent to the agricultural sector.

Banks have also loaned around $90 billion to businesses and nearly $240 billion has been advanced to households, mainly as mortgages.

The real concern is that household debt is increasing at a time when servicing costs are relatively low, with historically low interest rates. There is a danger that when interest rates rise, as they inevitably will (although the exact timing of the rise can always be debated), households will get into strife. Although significant debt reduction was achieved post-2009, households appear to have partially forgotten the lessons of the past. Rising house prices might provide a feel-good factor but it is dangerous to take these price rises as representing a real increase in wealth. At the end of the day people have to live somewhere and the cost of housing will ultimately be passed on to households through higher rental costs.

Fifth, NZ is vulnerable to changes in both international and domestic milk production even though farmers (particularly dairy farmers) will welcome the higher international dairy prices feeding through into a continually revised Fonterra payout. Payout levels mean most farms will return to profitability for the current 2016/17 season but the risk remains since although NZ is a small player when it comes to global milk production, it is a major player in the world trade in milk products.

The latest rise in dairy prices is likely driven by a number of factors. These include key global suppliers' milk production reducing in response to lower milk prices internationally, depleted international stockpiles and NZ's milk collection down around 3 percent compared with last season. The latter is largely the consequence of fewer (price) incentives to drive production higher through the use of supplement feed products as well as adverse spring conditions in some parts of the country that have significantly disrupted production. In general terms, once lost through weather conditions and the like, milk production cannot be recouped later in the season. Price volatility is therefore something dairy farmers are going to have to live with for the foreseeable future.

Sixth, if world interest rates begin to rise, international investors could decide to pull the plug and invest in interest bearing deposits rather than the NZ share market. The share market took a bit of a hit over the last quarter but has recently gone from strength to strength. The risk is very real as around half the capital invested in NZ is foreign sourced. However, NZ companies are generally very robust, with sound balance sheets and an ongoing tendency to deliver respectable dividends compared with many of our competitors overseas.

International risks, in no particular order of importance.

The last 12 months have been relatively volatile for markets around the world driven by two specific issues.

First, the Brexit decision, second, and more recently, the US election.

Brexit caught markets by surprise and there was significant volatility immediately afterwards. Even though predictions of economic collapse have been exaggerated, Brexit has the potential to encourage some parts of the world to revert to protectionism and trade reduction. However, NZ exporters have been assured by Britain and the European Union there will be no change in access for its goods or people until new conditions are negotiated. A time frame likely to extend over 2-4 years will allow for Britain's orderly and seamless exit from the EU.

Second, the election of Donald Trump was a surprise to most, despite the majority of popular votes going to Hillary Clinton.

Some have said, probably correctly, that the vote for Trump was a vote against the status quo. Many commentators, and indeed economists, perhaps underplayed the anti-globalisation undercurrent growing in many parts of the world (read Brexit).

While some consider Trump's election to be the end of the world as we know it, a few things have to be put into context.

Importantly, while NZ is a small open economy heavily dependent on international trade, Trump's trade guns are not aimed squarely at this country but are more openly on China and Mexico - which should be of some comfort. However, after China and Australia, the US is a significant market for NZ and takes around 12% of our total goods and services – a reasonable amount in the scheme of things.

The Trans Pacific Partnership (TPP) which for many countries would have improved export opportunities to the US, is likely to be dead (if not buried), at least for the foreseeable future. This is unhelpful and other sectors would have benefitted but the agreement would have provided very little for NZ's dairy sector.

Closing off the Trump effect, there is still a lot of water to go under the bridge before it is known how much election campaign rhetoric will become policy reality. And there is probably an upside for world growth given the significant emphasis on pro-growth polices such as tax reform and significant infrastructure spending; both have the potential to create greater inflationary pressures and a stronger US dollar, boding well for some investors into the US.

Finally, the threat of international terrorism remains, something world powers are finding difficult to address. But this international concern could have a positive impact on NZ if international tourists make their way here, seeing the country as a relatively safe destination despite our recent earthquake hiccups.

1.2 Monetary conditions – next stop tightening?

Interest rates – bottomed out

The 90-day bill rate is forecast to stay stable for the year ending December 2017 and lift marginally out to December 2018 (see forecasts below).

Forecasts: Interest Rates (90 day bills)

	Years ending		
	Dec 16	Dec 17	Dec 18
Highest	2.1	2.1	2.9
Average	2.1	2.1	2.4
Lowest	2.1	2.0	2.1

Source: ASB, BNZ and Westpac

As most expected, the Reserve Bank dropped the Official Cash Rate (OCR) to an historic low of 1.75 percent in its most recent review. Notwithstanding this further drop and given continuing very low headline inflation, there is reason to believe interest rates have bottomed out and will (and effectively are) heading northward, whatever the Reserve Bank does to the OCR.

First, inflationary pressures are starting to rebuild, albeit from a relatively low base. More on this later.

Second, the reluctance of lenders to accept returns of 2-3 percent has caused many banks to access even more capital offshore; given the nature of international risk, this means interest rates (effectively the cost of borrowing) are going up.

Third, strong population growth (assisted through record net migration), the buoyant housing market and a labour market starting to heat up are all supporting increased household spending and putting upward pressure on resources. All lead to increased inflationary pressures and consequently interest rate rises are likely sooner rather than later.

While headline inflation (which measures consumer prices) is still outside the Reserve Bank's target band of 1-3 percent, core inflation, discounting one-offs, is much more in the line of 1.5 percent. There is an argument that the public is more in tune with headline inflation but the Bank's role is to look broadly through one-off results and focus on the longer term. Therefore it can be argued that core inflation is a more credible number for the Reserve Bank to target in the medium term.

The NZ dollar – drifting lower

Forecasting exchange rate movements is particularly difficult at present since moves towards more normalised international monetary policy regimes are still largely uncertain.

The forecasts below show the NZ dollar expected to drift lower against both the US and Australian dollar. As a result, the TWI is forecast to show a similar shift.

While the immediate market reaction to the US election was negative, this was quickly reversed as markets focused more keenly on the likely impact of the president-elect's proposed polices - significant infrastructure expansion, tax cuts, and greater protection for US industries - all of which provide a recipe for higher prices (inflation) and higher interest rates. Already the US Federal Reserve has raised its official interest rate and mapped out a more stringent-than-expected tightening of monetary conditions next year. The consequent upward pressure on the US dollar could have a positive impact for NZ exporters as a stronger US dollar will put downward pressure on the NZ dollar over time.

Forecasts: Exchange Rates

AUD (cents)			
	Dec 16	Dec 17	Dec 18
Highest	0.96	0.96	1.00
Average	0.95	0.95	0.94
Lowest	0.94	0.94	0.90

USD (cents)			
	Dec 16	Dec 17	Dec 18
Highest	0.72	0.73	0.75
Average	0.72	0.69	0.69
Lowest	0.72	0.67	0.64

TWI			
	Dec 16	Dec 17	Dec 18
Highest	79.8	76.7	77.6
Average	78.2	75.9	74.8
Lowest	77.0	74.6	73.1

Source: ASB, BNZ and Westpac

Inflation – waking up

Forecasts below show inflation will likely be in the middle of the Reserve Bank's target range of 1-3 percent by December 2018.

Forecasts: percent Change in Inflation (CPI)

	Years Ending		
	Dec 16	Dec 17	Dec 18
Highest	1.4	1.7	2.0
Average	1.2	1.4	2.0
Lowest	1.0	1.1	1.9

Source: ASB, BNZ and Westpac

Oil prices have bottomed out and global commodity prices, in general, are starting to recover, so NZ should not necessarily assume low inflation is here to stay. Inflationary pressures are now likely to be on the upside as a result of the factors mentioned below.

Dairy prices have recovered significantly of late while other commodity prices, including oil, have shown some upward movement, although from a relatively low base.

The labour market is going from strength to strength and so far overall labour market cost pressures have remained subdued on the back of strong labour market inflows, immigration and increased participation rates. Ultimately, however, these will impose higher wage pressure.

The extensive damage to State Highway One in the South Island and to the rail network as a result of the recent earthquakes (particularly around Kaikoura) have disrupted and will continue to disrupt the transport of both people and freight between the North and South Islands. Disruption to transport links will mean significantly greater time and perhaps more importantly, substantially greater cost spent on freight movement. While such disruption will obviously produce winners and losers, freight costs are a significant factor in moving product around NZ and inevitably will be reflected in a slight upward movement in the Consumers' Price Index (CPI).

The need for resources to be redirected towards earthquake clean-up and repair activity must see prices rise to reflect supply and demand conditions over a range of industries.

There is little downward risk to inflation over the medium term, although some one-offs such as lower Accident Compensation Corporation (ACC) levies for 2017/18 and 2018/19 will have a slight downward effect on the CPI. Any downward effect is likely, however, to be offset by rises in insurance costs as the real or perceived risk of further earthquakes and associated damage remains at elevated levels.

1.3 Business activity and consumer confidence on solid footing

Business activity solid

Business activity and consumer confidence indicators generally continue to rise as evidenced by a number of qualitative and quantitative surveys.

Perhaps a key strength of the current growth picture is that confidence is broadly exhibited across all major sectors. Therefore if one sector takes a sudden dip, there can be no concern about the wheels falling off.

The latest BNZ Confidence Survey (6 December 2016) shows confidence across tourism, construction, engineering, forestry, ICT and retail with all indicating strong growth going into 2017. The agricultural sector is improving with the recent dairy price rises although production is down, mainly as a result of indifferent spring conditions in some parts of the country.

Confidence is also strong in the export sector, despite an increasingly complex international landscape. The 2016 ExportNZ DHL Export Barometer shows kiwi businesses signaling overall optimism regarding export orders both over the past twelve months and on into the future.

According to the ExportNZ DHL Export Barometer, just over half (52 percent) of NZ exporters have seen international orders increase over the past 12 months with export orders remaining the same for another significant portion (35 percent). Just 12 percent said export orders have decreased.

When asked about expectations for the coming year, optimism reigned supreme. Around two-thirds (63 percent) of exporters expect international orders to increase and 33 percent that they will remain at the same level. Signaling overall positivity, just 4 percent think that for their business, export orders in the coming year will decrease.

While the Kiwi dollar holds strong and is the biggest challenge for exporters trying to maintain profitability and competitiveness, more respondents were neutral on the impact of the dollar than in previous surveys.

It should be noted that while the survey was carried out prior to the US election result, neither of the presidential candidates was pro-trade and the TPP looked increasingly likely to struggle for US support.

Numerous other business outlook surveys show similarly positive sentiment across the board. However, while businesses are optimistic about their own improvement prospects, there still appears to be a gulf between that perception and what business perceives to be the general business outlook across the economy as a whole. For example, the latest ANZ Business Outlook shows a net 21 percent of businesses optimistic about the year ahead compared with a significant net 38 percent who expect better times ahead for their own business.

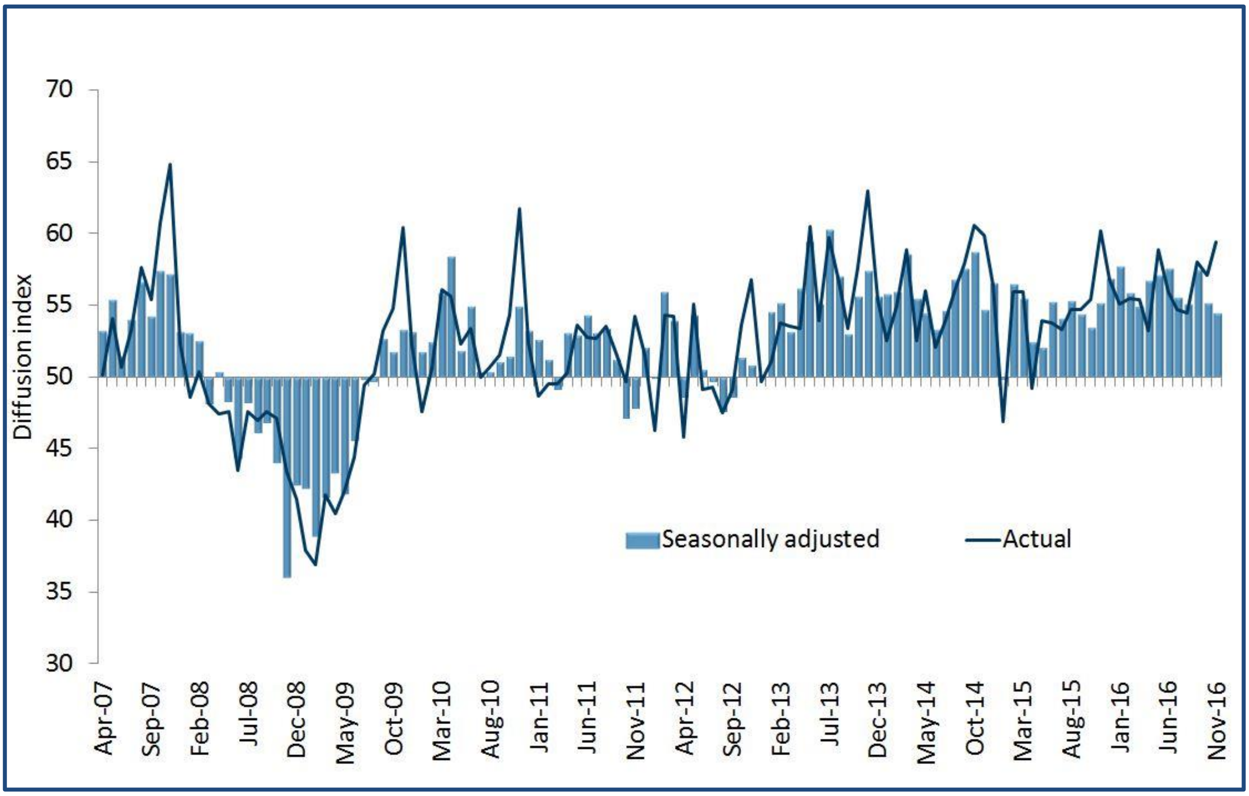
The PMI and its sister survey, the PSI, both show continue solid growth.

The seasonally-adjusted PMI for November 2016 was 54.4 (a PMI reading above 50.0 indicates that the manufacturing sector is generally expanding; below 50.0 that it is declining). This was 0.7 points lower than in October although the sector has remained solidly in expansion in almost every month since October 2012. Therefore while the lower expansion level for November represented the second consecutive softening in expansion, the survey's fundamentals are still healthy.

Employment (48.6) went into slight contraction for November but production (57.9) remained unchanged from October and new orders (58.0) increased 3.1 points. Also, the proportion of positive comments from manufacturers for November (70 percent) remained at a very healthy level.

BNZ-BusinessNZ Performance of Manufacturing Index

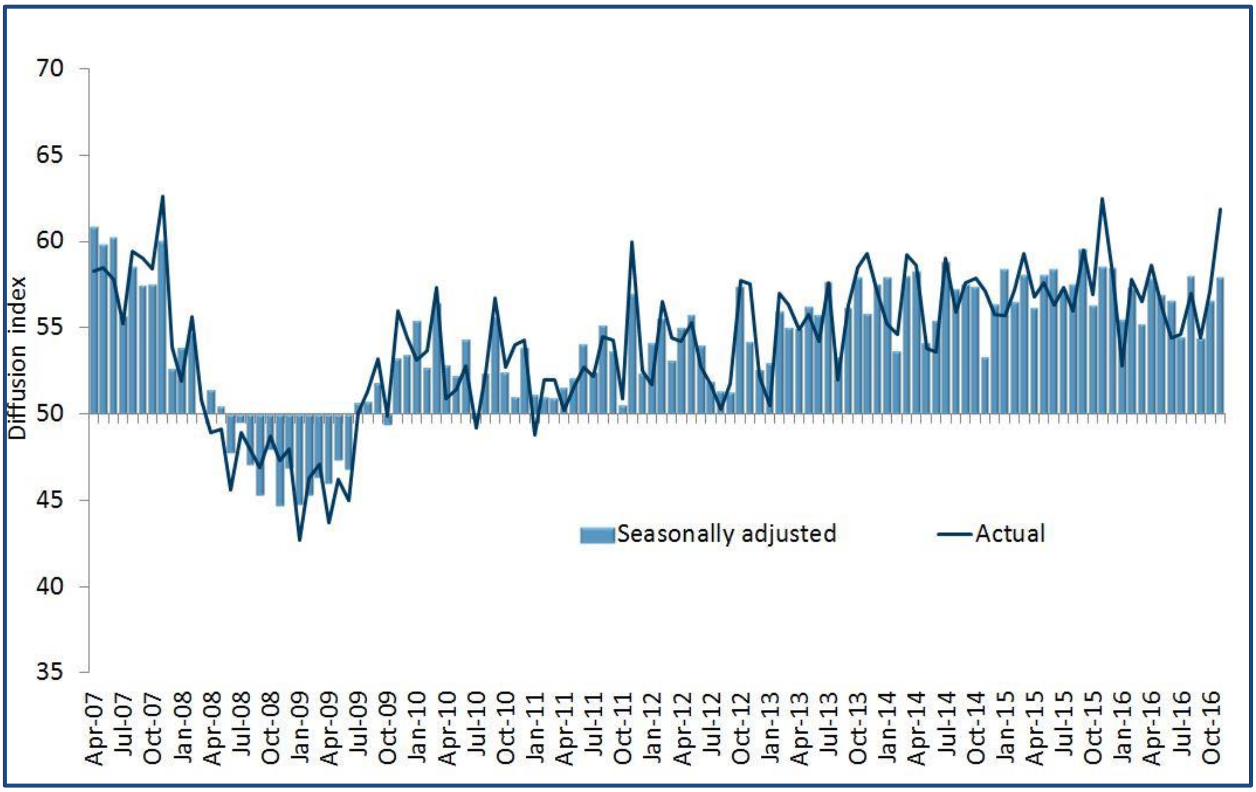
(PMI) (2007 onwards)



The BNZ–BusinessNZ Performance of Services Index (PSI) experienced a further pick-up in expansion during November.

The PSI for November was 57.9. This was 1.3 points up from October, and the highest result since August (a PSI reading above 50.0 indicates that the service sector is generally expanding; below 50.0 that it is declining).

BNZ-BusinessNZ Performance of Services Index (PSI) (2007 onwards)



Comments from respondents show that for some, the recent earthquakes have presented obvious challenges. However, seasonal factors such as the lead up to Christmas and improving weather have helped make the November result the second equal highest in 2016.

As with the business community generally, consumers also are still upbeat; this is driven by continued strong employment growth, declines in unemployment, record low interest rates and low inflationary pressures. Forward looking indicators, such as financial position 12 months out, continue to rise showing a strong degree of confidence in the long-term economic outlook.

Notwithstanding business' and consumers' generally positive outlook, the above results must be taken with a grain of salt as many were from surveys carried out either prior to, or just after, the recent earthquakes and might not necessarily reflect the likely dip in confidence typically flowing from such events.

1.4 Labour market – going from strength to strength

Employment – solid growth continues

Despite relatively strong growth in numbers entering the labour market and record participation rates, unemployment continues to decline with the forecasts below indicating the unemployment rate expected to drift lower to reach 4.6 percent by December 2018.

A number of surveys show employment confidence in NZ continuing to rise with optimism at its highest level for at least a couple of years.

Forecasts: Unemployment percentage (HLFS)

	Quarter		
	Dec 16	Dec 17	Dec 18
Highest	4.9	5.1	5.4
Average	4.8	4.7	4.6
Lowest	4.8	4.4	4.2

Source: ASB, BNZ and Westpac

The mix of factors impacting on labour market outcomes includes continued strong population growth, reflecting in part strong net migration inflows. However, much of the increase in net migration is driven by fewer NZers leaving and more NZ citizens returning as the economy has continued to improve. This level of migration might now have peaked although demand for labour continues unabated, as evidence by the latest ANZ Job Ads.

The ANZ Jobs Ads series for November 2016 shows job ads rising 2.9 percent in November on a seasonally-adjusted basis. Job ads are now over 18 percent higher than a year ago.

Auckland continues to lead the charge in respect to urban growth with job ads 18.1 percent higher than a year ago. Wellington job ads were up 16.5 percent on a year ago while Canterbury job ads were 1.6 percent lower than a year ago (3-month average). The Canterbury results need to be put in context given the huge growth in employment there over the last few years as a result of the ongoing rebuild and redevelopment post the 2011 earthquake.

Notwithstanding relatively strong urban employment growth, the regions continue to outpace growth in urban areas by a sizable margin, Gisborne moving into top spot with job ads up 46 percent on a year ago, followed by the Bay of Plenty (up 42.6 percent). At the opposite end of the spectrum are Taranaki and Southland – which were up by a more modest 13 percent – still quite respectable.

Perhaps not too surprisingly, the construction, utilities, manufacturing and transport sector is currently experiencing the largest growth in job ads, with retail/tourism/recreation, and finance, professional, scientific, real estate and administration services following suit.

Labour costs – generally subdued

Forecasts below indicate labour costs expected to increase only slowly to 2.0 percent for the year ending December 2018.

Reasonably solid employment growth notwithstanding, the high numbers of people entering the labour market, including the ongoing impact of strong net inward migration, will for now probably see wage pressures generally contained. However, on balance, wage pressures are likely to start building not only due to normal supply and demand conditions but also to other factors that impact on individuals' disposable income after the basics, such as taxes and housing costs, have been taken out.

Forecasts: Labour cost index percentage change (wages & salaries)

	Years ending		
	Dec 16	Dec 17	Dec 18
Highest	1.7	1.9	2.1
Average	1.6	1.8	2.0
Lowest	1.5	1.6	1.9

Source: ASB, BNZ and Westpac