

PLANNING FORECAST

MARCH 2018

BusinessNZ 

NZ economy – Offshore assistance

Executive Summary

The NZ economy continues to perform to a satisfactory level, assisted in part by a continued improvement in the global economic outlook.

NZ's terms of trade (a measure of the purchasing power of its exports and a key indicator of the state of the economy overall) reached an all-time high in the December 2017 quarter, driven largely by higher meat and dairy prices.

As for the global economy, the general recovery is gaining steam. According to the International Monetary Fund's (IMF) World Economic Outlook (January 2018), the global cyclical upswing beginning midway through 2016, has continued to gather pace with accelerating growth in Europe, Japan, China and the United States. The global economy is forecast to grow at around 4 percent annually out to 2019 but with advanced economies experiencing a rather slower rate of growth.

It is noteworthy that while the BNZ – BusinessNZ Performance of Manufacturing Index (PMI) has more or less led the world for the last 5 years, the global PMI has now caught up, suggesting the international investment cycle is consolidating and promising to self-sustain global economic expansion. This should be good news for manufacturing industries, NZ included.

The recent signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP) will significantly improve New Zealand's access to a wider range of export markets – especially Japan, pointing to a better and brighter future for NZ exporters.

But despite an overall positive international outlook, global risks remain. These include, in no particular order of importance:

- The potential for a financial market correction on the back of growing international inflationary pressures,
- Policy uncertainty, which may impact on investment intentions and decisions,
- A propensity for greater inward-looking regulatory/trade barriers, and
- Ongoing geopolitical tensions.

In this respect it is somewhat ironic the recent CPTTP signing coincided with the President of the United States stating he will impose steel and aluminum tariffs on imports, with potentially indefinite exclusions for Mexico and Canada. The risk of such impositions goes without saying – higher prices for consumers and a real likelihood other countries, e.g. European countries, will retaliate. No-one wins and ultimately, the poor old consumer carries the can.

On the domestic front the Government's agenda of policy proposals increases apace. The inherent difficulty is to design policies that deal effectively with the issues to which they are directed without having adverse unintended consequences. The Overseas Investment Bill (OIB), with its proposal to ban overseas speculators from buying existing houses, is a case in point. Imposing such a ban will inevitably be easier said than done.

The labour market is another area where significant changes are proposed. Ensuring planned changes benefit, rather than hinder, vulnerable people entering, or currently in employment, improving both their productivity and earnings potential over time, is going to involve a careful balancing act.

HIGHLIGHTS

The BusinessNZ Economic Conditions Index sits at 9 for the March 2018 quarter, up 2 on the previous quarter and up 1 on a year ago.

The BNZ - BusinessNZ Performance of Manufacturing Index has shown solid expansion over early 2018, after a reduced level of expansion post-election 2017. Its sister survey, the Performance of Services Index (PSI), continues to go from strength to strength.

Tourism and construction still show solid growth with some tourism growth pains evident of late. The agricultural sector, after the drought conditions of early summer abated, has improved on the back of higher lamb and dairy prices holding up well in light of solid international demand.

The recently signed CPTTP will give added confidence to NZ exporters, enabling them to access a wider range of export markets.

Business confidence took a dive post-election, but has recovered somewhat although still well below pre-election levels. However, lower levels of confidence do not seem to be borne out by near term investment intentions or employment levels, both of which remain healthy.

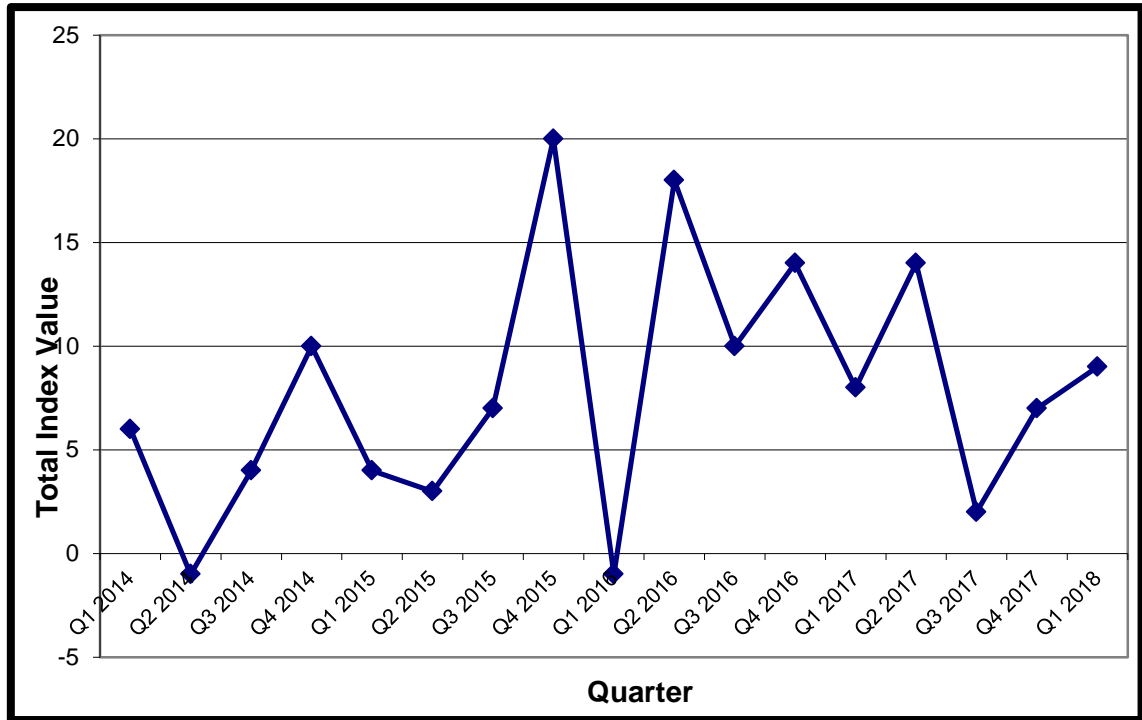
Perhaps not surprisingly, consumer confidence also remains high on the back of relatively strong employment growth and lower levels of unemployment, both encouraging consumers to open their wallets.

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 9 for the March 2018 quarter, up 2 on the previous quarter and up 1 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 1 for the March 2018 quarter, down 5 on the previous quarter, and down 1 on a year ago. New Zealand's terms of trade are now at record levels on the back of improving world commodity prices.

Monetary policy/pricing indicators sit at 2 for the March 2018 quarter, the same as the previous quarter and down 1 on a year ago. International inflationary pressures are starting to edge up from very low levels and this has seen international interest rates drift up slightly. NZ has not been affected to date.

Business/consumer confidence indicators sit at 3 for the March 2018 quarter, up 6 on the previous quarter and up 2 on a year ago. Business confidence is starting to recover somewhat after taking a post-election dive late last year. By contrast, consumer confidence indicators continue to consolidate at robust levels.

Labour market indicators sit at 3 for the March 2018 quarter, up 1 on the previous quarter and down 3 on a year ago. Overall, employment growth remains strong, while unemployment has continued to trend down despite record labour force participation rates. The impact of the Government's labour market changes on wages and employment/unemployment is yet to be felt given proposals for change are yet to be implemented.

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. The results for the December quarter 2018 are estimates based on available information to date.

PART 2: THE NZ ECONOMY – WHERE ARE WE HEADING

1.1 Economic growth (GDP) – respectable

The economic growth outlook has eased slightly from earlier quarters but a still-healthy growth rate of around 3% per annum is forecast out to March 2020.

While there are sectors where some key drivers of growth are starting to ease off (e.g. net migration inflows have started to decrease but remain at historically high levels) and construction activity has eased back somewhat, other sectors continue to show solid growth, including the manufacturing and services sectors.

The agricultural sector, having faced the prospect of drought conditions at the time of the last (December 2017) forecast, has recovered somewhat with significant rain (and in some places too much) lessening the risk of any long-term impact. Dairy prices have generally remained solid and Fonterra's downward revision of its forecast Farmgate Milk Price for the 2017/18 season, from \$6.75 to \$6.40 per kgMS, now seems like a relatively conservative precaution rather than an indication international dairy prices are under any sort of downward pressure.

Meat prices have improved, with relatively strong demand both for beef and lamb and the lambing percentage one of the best for many years. Productivity per animal continues to improve, good news when looking at the wider picture of agricultural production in NZ and the current pressure on land use and nutrient discharge. The global economy is also showing continued improvement, helping increase the demand for quality protein and thereby favouring NZ producers.

For the agricultural community, the (downside) risks are more likely to be related to domestic, rather than international, policy settings. For example, the sector will keenly assess any proposals which come out the Tax Working Group, such as for wealth and/or environmental taxes, for their potential impact.

The Government's agenda of policy proposals continues to run apace although to be fair, it is one thing to advocate policies in opposition and another to try and implement them when in government. The difficulty will be to design policies that when implemented, will address the issues to which they are directed without having adverse unintended consequences. The Overseas Investment Bill (OIB), with its proposal to ban overseas speculators from buying existing houses, is a case in point. Imposing such a ban will inevitably prove easier said than done.

Another area where significant changes are proposed is the labour market. Ensuring planned changes benefit, rather than hinder, vulnerable people entering, or currently in employment, improving both their productivity and earnings potential over time, will inevitably involve a careful balancing act. More on this later under "Labour Market".

As for the global economy, the general recovery is gaining steam. According to the International Monetary Fund's (IMF) World Economic Outlook (January 2018), the global cyclical upswing, beginning midway through 2016, has continued to gather pace with accelerating growth in Europe, Japan, China and the United States. The global economy is forecast to grow at around 4 percent annually out to 2019 but with advanced economies experiencing a rather slower rate of growth.

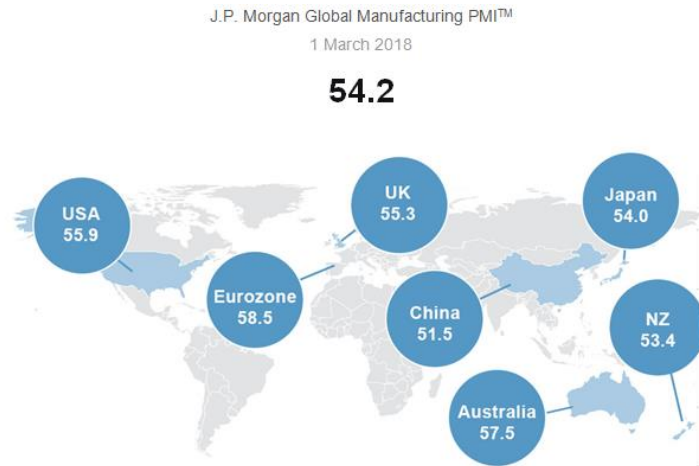


Source: IMF

According to the JPMorgan Global Manufacturing & Services PMI, the rate of expansion in global economic output accelerated to a near three-and-a-half year high in February 2018 as stronger growth in the services sector offset a slightly weaker upturn in manufacturing. The J.P Morgan Global All-Industry Output Index rose to a 41-month high of 54.8 in February, up from 54.6 in January.

Importantly, almost all the nations covered registered an increase in economic output, while the latest rate in jobs increase is also strong.

It is noteworthy that while the BNZ – BusinessNZ Performance of Manufacturing Index (PMI) has more or less led the world for the last 5 years; the global PMI has now caught up, as can be seen below. This suggests the international investment cycle is consolidating and promises to self-sustain the global economic expansion. This should be good news for manufacturing industries, NZ included.



NZ's terms of trade (a measure of the purchasing power of NZ's exports abroad and a key indicator of the state of the economy overall) reached an all-time high in the December 2017 quarter, driven largely by higher meat and dairy prices.

And there is more good news for NZ, with the recent signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP) which will significantly improve access to a wider range of export markets – especially Japan, pointing to a better and brighter future for NZ exporters.

It is somewhat ironic that the recent CPTTP signing coincided with the President of the United States stating he will impose steel and aluminum tariffs on imports, with potentially indefinite exclusions for Mexico and Canada. The risk of such impositions almost goes without saying – higher prices for consumers and a real likelihood other countries, e.g. European countries, will retaliate. No-one wins and ultimately, the poor old consumer carries the can.

Despite the fact that in export terms, NZ exports relatively low levels of both aluminum and steel to the US, the more important issue is the signal sent for future international trade agreements, including the sustainability of current agreements.

It is understood the Tiwai Point Aluminum Smelter (NZAS) in Bluff, last year sold less than 2 percent of its aluminum into the United States, but the proposed tariffs obviously have wider implications for the smelter's other global markets given it has operated in pretty trying conditions for a number of years. Any small (adverse) change could be enough to tip the Bluff smelter over the edge with unfortunate effects for the Southland economy where it is a major player, both in terms of its direct (and indirect) workforce. It is also New Zealand's largest electricity user.

President Trump has tried to provide assurances to markets that the impact of any such tariffs will be largely benign saying they would be introduced in a "loving" way by inviting key trading partners to negotiate an alternative approach on a case by case basis. Not a particularly sound or principled way to address future international trade arrangements and with the major danger of undermining the global trading system which to date has depended on respect for World Trade Organisation (WTO) rules.

Forecasts: Real GDP percent Growth

	Years Ending		
	Mar 18	Mar 19	Mar 20
<i>Highest</i>	2.9	3.3	3.6
<i>Average</i>	2.8	3.0	3.2
<i>Lowest</i>	2.8	2.6	2.8

Source: ASB, BNZ and Westpac

1.2 Monetary conditions – on hold for now

While the Review of the Reserve Bank Act continues in the background, there is little in the way of major changes to be reported in respect to New Zealand’s monetary policy settings.

And despite significant uncertainty about the impact on inflationary outcomes of a number of government-promoted policy proposals (expansionary fiscal policies and greater labour market regulation), there is little urgency for the Reserve Bank to act - yet.

At the international level, an improvement in the global economy has seen a number of countries raise interest rates, albeit from a very low base. Rising interest rates have resulted in a sell-off in equities markets, particularly in the US but even so, key US equity indexes have recovered some of the ground lost in February this year. The potential for trade wars in light of President Trump’s intention to impose tariffs on steel and aluminum (with some possible country-specific exemptions) is also having some downward effect on equities. Volatility is the name of the game currently in US equity markets.

Notwithstanding the above, there is a growing awareness of an international economy in reasonably good heart with significant expansion over a broad range of economies fueling the prospect of the last decade’s very lax monetary policy accommodation ending sooner than anticipated.

Interest rates – edging up

The 90-day bill rate is forecast to edge up to 2.7% by March 2020 (see forecasts below).

The Reserve Bank, as widely predicted given some post-election uncertainty, kept the OCR at 1.75% at the last review. There is little pressure at this stage to lift the OCR, although there are some hints of underlying inflationary pressures (both tradable and non-tradable) that will likely keep the Reserve Bank focused on inflation.

Construction inflation is now well contained after earlier significant rises and strong competition is keeping a lid on retail prices. The NZ dollar largely holding its own, with some slight increases overall, is also acting as a brake on tradables’ inflation.

Forecasts: Interest Rates (90 day bills)

	Years ending		
	Mar 18	Mar 19	Mar 20
Highest	2.0	2.3	3.2
Average	1.9	2.1	2.7
Lowest	1.9	1.9	2.3

Source: ASB, BNZ and Westpac

The NZ dollar – little real change

While there is a wide range of forecasts on the future direction of the NZ dollar (reinforcing the difficulty of trying to predict future movements), on average it is forecast to remain relatively stable over the period to March 2020.

The above perhaps suggests that markets, particularly financial markets, place more weight on NZ’s robust economic position – and its sound institutions – than on who the government necessarily is, or on policy changes on the margins. It is unlikely the Reserve Bank Act review will recommend changes radical enough to upset markets, although as has been previously stated, the devil will be in the detail.

To date the NZ dollar has remained higher than previously forecast, particularly given the fact that interest rate differentials (particular against the US), which would have seen the dollar ease in normal circumstances, have more or less disappeared. The increase in international commodity prices may also be a factor holding up the NZ dollar given the relatively strong historic relationship between the dollar’s value and commodity (particularly agricultural) prices. Throw into the mix that US policy uncertainty is having some bearing on the popularity of the US dollar, and reliably predicting the NZ dollar’s future direction becomes really hard. Continuation of the status quo might not be too far off the mark.

Forecasts: Exchange Rates

AUD (cents)				USD (cents)			
	Mar 18	Mar 19	Mar 20		Mar 18	Mar 19	Mar 20
Highest	0.92	0.93	0.93	Highest	0.72	0.76	0.79
Average	0.91	0.91	0.92	Average	0.72	0.70	0.72
Lowest	0.90	0.90	0.90	Lowest	0.72	0.65	0.66

TWI			
	Mar 18	Mar 19	Mar 20
Highest	74.6	75.7	76.5
Average	74.3	72.4	72.9
Lowest	73.9	70.0	70.7

Source: ASB, BNZ and Westpac

Inflation – little upward pressure - yet

Forecasts below show inflation likely to remain well within the Reserve Bank's target band of 1-3% to March 2020, although gradual rises cannot be ruled out. There are potential pressures from both tradable and non-tradable inflation.

On the tradable side, a continued improvement in the world economy is putting some, at this stage minor, upward pressure on commodity prices, while monetary policies across a range of countries are finally moving back toward more long-term normalised positions. In short, inflationary pressures, while still low internationally, have the potential to escalate over time.

Notwithstanding the above, over recent years global competition and innovation have cranked up the development of better products and services at lower cost. Consequently, the old argument that as demand ratchets up prices will rise does not necessarily hold now as it did in the past. Prices over a wide range of products and services are dropping, both in real and nominal terms, a significant shift away from the traditional assumption that generalised inflation is here to stay. Moreover, consumers have much more choice in where they can source their products, including the fact that on-line shopping is now a very fast and efficient method of obtaining goods and services, literally from "paddock to plate", in a very timely manner.

On the domestic front, inflationary pressures are almost in conflict. Reducing net migration from recent highs, stabilisation (generally) of house prices and a highly competitive retail sector are keeping a lid on general price increases. On the other hand, the new Government's generally expansionary fiscal policy, together with its large building programme, could put upward pressure on prices. Other new policy proposals, such as raising the minimum wage to \$20 per hour by 2021, are also likely to put upward pressure on wage costs.

Forecasts: percent Change in Inflation (CPI)

	Years Ending		
	Mar 18	Mar 19	Mar 20
Highest	1.2	1.8	2.0
Average	1.0	1.6	1.7
Lowest	0.9	1.5	1.5

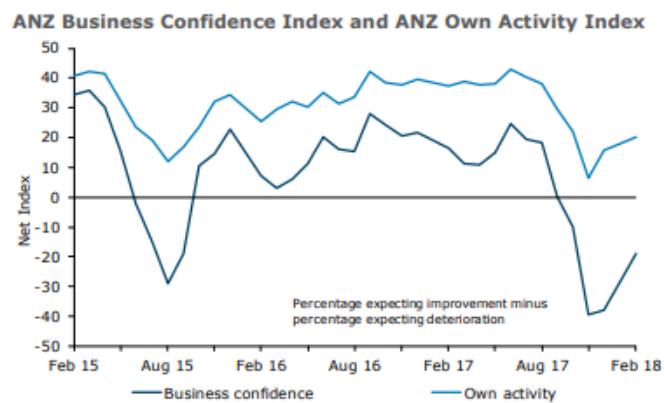
Source: ASB, BNZ and Westpac

1.3 Business activity and consumer confidence

Business confidence edging up again after post-election collapse

While business activity indicators have carried on as usual in a generally positive fashion post last year's general election, the same can't be said for business confidence. Key quantitative indicators have shown the economy steaming along reasonably nicely, as evidenced by the latest BNZ-Business NZ Performance of Manufacturing (PMI), (despite a slight blip in December 2017) and its sister survey, the Performance of Services (PSI) but on the other hand, business confidence fell over the December 2017 quarter and is only slowly recovering. More concerning was the fall off in individual businesses' assessment of their own prospects.

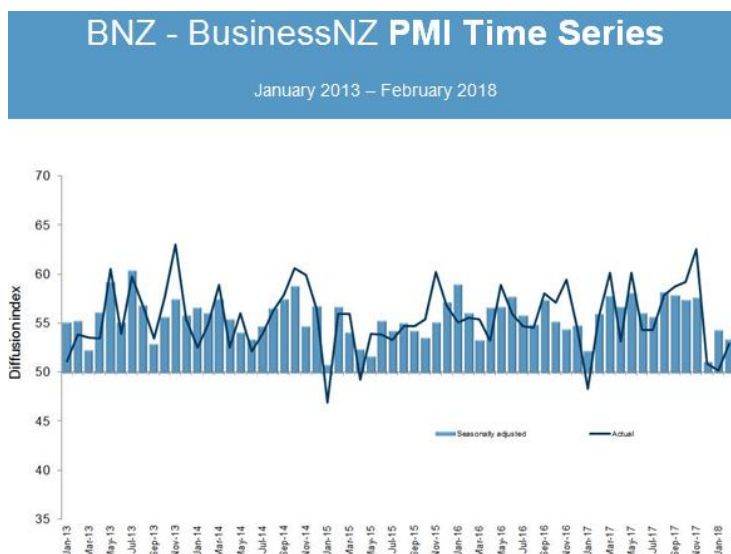
The ANZ Business Outlook for February 2018 found a net 19 percent of businesses pessimistic about the year ahead, compared with 38 percent in December 2017. Firms' views of their own activity improved from a more healthy base of +16 to +20. With the significant downturn in business confidence post the general election last year, it was no surprise most key activity indicators improved almost across the board in the February survey, although they are still well off their previous highs.



Source: ANZ

Given the reasonably positive story coming out of the Manufacturing and Services sectors (see below), it is hard not to read a bit of chest beating into the December 2017 quarterly results but this should settle down over time. However, a number of surveys in the first quarter of 2018 have shown businesses to be still quite nervous. In the background will be concerns about the impact of significant labour market policy proposals, along with the usual concerns about how new policies, while well-intended, will play out in reality.

The seasonally-adjusted PMI for February 2018 was 53.4, 1 point lower than in January, and the second lowest expansion value in the last 13 months (a PMI reading above 50.0 indicates manufacturing is generally expanding, below 50.0 that it is declining). The February result was also exactly on par with the overall average PMI value since the survey began in August 2002.



The proportion of positive comments in February (51.4%) was very close to the January result (50.7%), with a number of respondents noting a sluggish start to the year, a dip in new orders being a common message.

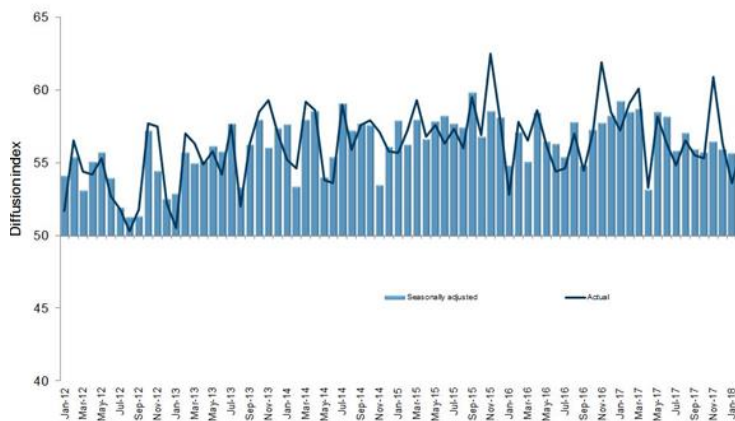
Main Indices



The services sector remains firmly in positive territory, although the latest survey outcomes for February 2018 show mixed results.

BNZ - BusinessNZ PSI Time Series

January 2012 – February 2018



The PSI for February was 55.0, 0.7 points lower than January’s (A PSI reading above 50.0 indicates that the services sector is generally expanding; below 50.0 that it is declining), the fourth consecutive decrease in expansion levels.

Notwithstanding some recent softening in expansion levels, it is important to remember that since September 2017 PSI expansion levels have been very consistent, especially as new orders/business has also remained strong.

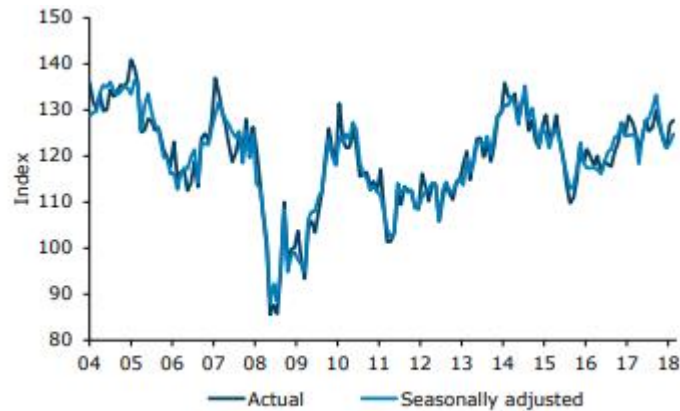
Main Indices



Consumer confidence, unlike business confidence, is relatively buoyant and above its historical average. Here it is likely a number of factors are at play, including labour market activity remaining strong (see below) with opportunities to enter the labour market driving up labour force participation.

The ANZ-Roy Morgan NZ Confidence Survey showed confidence lifting slightly to reach 127.7 in February this year. While a little off the high reached in September last year, consumer confidence has been more or less solid for the last couple of years, as can be seen below.

ANZ-Roy Morgan Consumer Confidence



Source: ANZ, Roy Morgan

The survey found consumers continuing to be content with their current financial situation with a net 15 percent feeling financially better off than a year ago and the proportion of those who reported being worse off the lowest in survey's history. Both results point significantly to the value of an economy delivering growth and relatively low levels of unemployment, at least by historical standards.

Consumers appear to have little enthusiasm for paying down debt and household debt levels continue to edge up despite the threat of higher interest rates down the track. Consumers appear comfortable with the fact that mortgage interest rates have been at historic lows for some time now and seem not to have factored in an understanding that interest rates will again rise, perhaps sooner rather than later, putting many households and indeed some businesses under financial strain.

1.4 Labour market – regulatory shake-up planned

Employment – solid growth

The labour market continues to perform reasonably well with a number of forward-looking indicators showing unemployment likely to reduce further over the forecast period to reach 4.2 percent by March 2020 - as below.

Forecasts: Unemployment percentage (HLFS)

	Quarter		
	Mar 18	Mar 19	Mar 20
Highest	4.4	4.6	4.6
Average	4.4	4.2	4.2
Lowest	4.3	3.7	3.6

Source: ASB, BNZ and Westpac

Official statistics and several business surveys reveal a relatively strong labour market. StatisticsNZ's Household Labour Force Survey (HLFS) for the December quarter 2017 showed a relatively robust picture, while the PMI and PSI show continued strength, largely across the board.

Notwithstanding a positive picture overall for aggregate employment growth, associated declines in unemployment, and continued strong growth in job vacancies, there remain significant regional differences, and perhaps more importantly differences in various regional areas' unemployment rates. With levels of youth unemployment and young people not in education, employment or training (NEETS) still relatively high, a great deal of effort will be required to ensure the most vulnerable in society are able to participate actively in the labour market rather than simply fall into a life of benefit dependency.

As well, the number of "underemployed" (those working part-time who want more hours and are available) saw the underutilization rate creep up to 12.1 percent in December reinforcing the need to look through some of the headline rates of employment/unemployment to get a clearer picture of future activity.

Annual GDP growth, expected to remain around 3 percent per annum, should facilitate further employment growth, although the prospect of further growth in labour force participation could be tempered somewhat if net migration levels continue to come off their recent highs.

The Government has a very full agenda of labour market changes some which can be seen as rather technical issues which these might help businesses and workers understand their rights and obligations in the modern era (e.g. a review of the Holidays Act). Other changes, such as significant increases in the minimum wage over time, could spell trouble if employees are unable to retain their employment or potential employees are unable to enter the labour market to help them improve their productivity and earnings potential over time.

The Government's ER agenda has been organised in two main phases, i.e. within the first 100 days (ended on 3 February 2018), and "later".

First 100 days (ended on 3 February 2018)

Changes to the ***minimum wage*** have already been announced. It will move to \$16.50 (up \$0.75) on 1 April 2018, and progressively to \$20 by 2021. The 2018 change was made by Order in Council issued on 12 February (statutory instrument (regulation) 2018/10).

Similarly, the increased ***paid parental leave*** period has already been announced (though as yet there has been no official Order in Council) and will go from the current 18 to 22 weeks on 1 July 2018, increasing to 26 weeks by 2020.

The government has introduced a ***bill amending the Employment Relations Act***.

Changes included in the Bill will:

- Restrict the availability of 90-day trial periods to small businesses (<20 employees),
- Make reinstatement again the primary remedy for dismissal,
- Specify meal breaks at specified times,
- Remove small business exemptions when contracting out work or in sale of business situations protected by Part 6A of the ER Act and increase timeframes for making decisions,
- Allow unions to initiate bargaining earlier than employers,
- Impose a duty to conclude collective bargaining unless there are genuine reasons not to,
- Remove employers' ability to opt out of MECA negotiations,
- Require employers to provide information about unions to prospective employees,
- Require new employees to be automatically covered by an applicable collective agreement for first 30 days of their employment,
- Repeal partial pay for partial strikes, e.g. "go slows" and "work to rules",
- Increase union rights of access to workplaces (effectively removal of the requirement to seek the employer's permission),
- Require employers to provide reasonable time off for union delegates to perform union duties,
- Require pay rates to be included in collective agreements,
- Provide greater protection against discrimination for union members.

"Later"

Past the first 100 days, the Government will turn its attention to the creation of its flagship policy of Fair Pay Agreements and will as well deal with several other issues including pay equity and arrangements giving employee-like rights to contractors. These are issues the Government believes need in-depth consideration before finalising its position.

Specifically the government will

- Tighten ***passing on rules*** (i.e. the process of "passing on" conditions negotiated by unions for their members to non-union members in the same workplace),
- Review the ***"Hobbit Law"*** arrangements governing contracting and employment arrangements in the film industry. A working group has been established for this purpose (BusinessNZ is represented on the group),

- Take a more structured, and probably slower, approach to **Fair Pay Agreements** than originally signaled post-election. Mechanisms for negotiating of FPAs and criteria governing their scope and coverage are aspects over which the government has indicated it will consult extensively. No specific timeframe has yet been announced for this work,
- Replace the previous government's Employment (**Pay Equity** and Equal Pay) Bill with a version based on the recommendations of the Joint Pay Equity Working Group in 2016. The working group (on which BusinessNZ was represented) was reconvened for the purpose of re-establishing the principles initially agreed and has since reported.

With respect to **extending employee-like rights and protections to contractors**, including the right to take personal grievances and bargain collectively, no details are currently available but the outcome is likely to be influenced by the conclusions reached in the review of the "hobbit law".

The government will not legislate on its desire to provide **foreign workers** with NZ minimum protections. Instead it will work on this issue via trade and other policies.

Labour costs – incremental rises

Expectations are that a tighter labour market will not flow through to significantly increased wage pressures, as can be seen below.

Forecasts indicate labour costs in general increasing relatively slowly with a growth rate of just over 2% per annum over the forecast period to March 2020.

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

	Years ending		
	Mar 18	Mar 19	Mar 20
Highest	2.0	2.4	2.8
Average	2.0	2.3	2.4
Lowest	1.9	2.1	1.9

Source: ASB, BNZ and Westpac

In some respects it is slightly puzzling that with greatly improved employment growth and firms' reported difficulties in finding skilled staff, wage costs have not yet risen significantly.

The impact of the Government's proposed significant labour relations reforms – some of which were referred to earlier – could see this situation change.