BUSINESS NZ

PLANNING FORECAST

SEPTEMBER 2019

BusinessNZ

NZ Economy: Slowdown

Executive Summary

Internationally and domestically, a number of factors are putting the brakes on the New Zealand economy.

The BNZ – BusinessNZ Performance of Manufacturing Index (PMI) has been in contraction for the last two months. This is concerning because historically the PMI has been closely linked to GDP performance. The most recent PMI showed new orders falling to their lowest level since 2009. On the other hand, its sister survey, the Performance of Services Index (PSI), still hovers above its long-term average.

Other leading economic growth indicators, including the ANZ Truckometer measuring heavy traffic movements, have fallen significantly of late, suggesting annual GDP growth remains in a trend decline.

Internationally, continued trade tensions between the US and China are increasingly seen not as short-term spats but as changing the face of international trade, turning towards more nationalistic and protectionist policies which can only harm world growth. We are already seeing the consequences of such policies, notably a downgraded world growth forecast and increased volatility over a range of markets.

Throw into the mix Brexit and other geopolitical risks, including energy security concerns in light of the recent drone attacks on Saudi Arabian oil facilities, and the world economic outlook is now far from being in the positive position forecast 2-3 years ago.

Despite international tensions and some financial market volatility, world stock markets are still booming, largely on the back of extremely low or negative interest rates. With low returns elsewhere, in the absence of any clear and easy alternative, investors are continuing to flock towards equity markets.

Domestically, business confidence is downbeat, prompting the latest headline in the ANZ New Zealand Business Outlook, *"Nothing good to say about it".* Low levels of business confidence appear relatively deep-seated at present and are not easy to shake off.

While many may think that with full employment, historically low interest rates, benign inflation and still solid international demand, businesses should be in good spirts to invest, this is not the case.

And the idea that reducing the OCR to 1 percent will magically stimulate investment is wishful thinking.

At the end of the day, businesses need confidence to invest and have to be able to see the benefits of investing in NZ as opposed to taking their capital elsewhere.

Property rights and their enforcement are the fundamentals of a market economy. Without reasonable security from confiscation by the state or others, incentives to invest and build up productive assets are severely weakened.

Recent regulatory decisions underline the need for respect for property rights, without which business and consumer confidence can be undermined.

HIGHLIGHTS

Despite international tensions, the NZ economy is forecast to grow at over 2 percent per year out to September 2021 – a gear-change down from earlier forecasts.

The BusinessNZ Economic Conditions Index, a measure of NZ's major economic indicators, sits at 5 for the September 2019 quarter, as for the previous quarter.

The future global trading environment leaves a lot to be desired with inward-looking nationalistic policies the order of the day. Free trade is under serious threat as the US and China engage in tit for tat tariff measures.

Despite international tensions between, particularly, the US and China, and other geopolitical tensions (including in Hong Kong), financial markets are continuing to show resilience, with stock markets around the world achieving significant gains from the beginning of the year, underpinned by historically low interest rates.

On the domestic front, The BNZ - BusinessNZ Performance of Manufacturing Index (PMI) and its sister survey, the Performance of Services Index (PSI), generally show lower levels of expansion with the PMI dipping into negative territory for both July and August for the first time since 2012. Given there has always been a relatively strong relationship between economic growth and the two surveys, it suggests the outlook for growth has weakened.

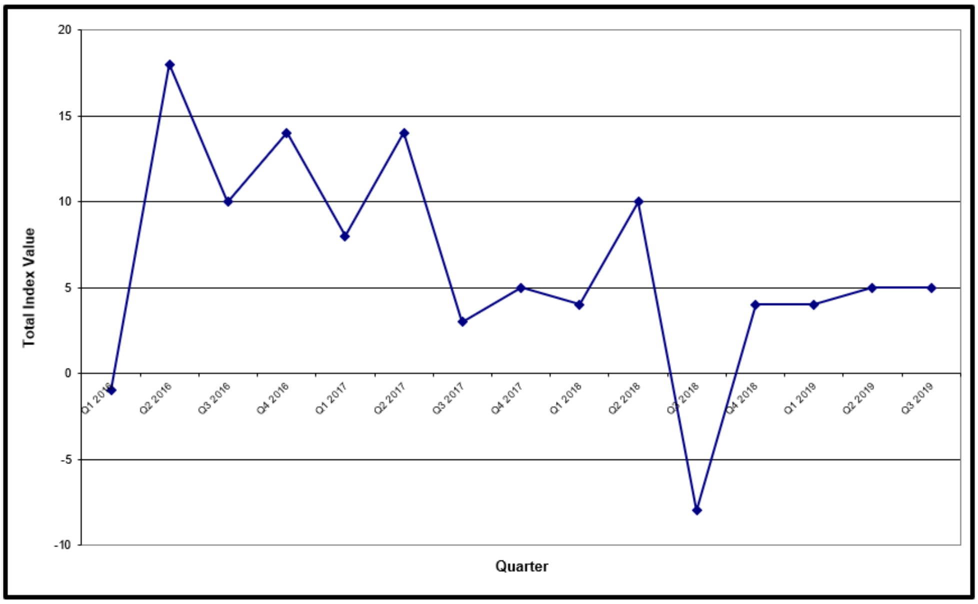
While international commodity prices are holding up reasonably well and world demand for NZ protein is still solid, some sectors, particularly agriculture, are increasingly coming under pressure from regulatory constraints. These include land use constraints which undermine fundamental property rights that are essential for businesses to risk their capital in NZ.

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 5 for the September 2019 quarter, the same as the previous quarter.[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

Economic growth/performance indicators sit at 5 for the September 2019 quarter, up 5 on the previous quarter and up 4 on a year ago. While economic growth is weakening, New Zealand's terms of trade (a measure of the purchasing power of its exports and a key indicator of the economy overall) are still reasonably solid, underpinned by relatively high lamb prices and a continuing solid demand for dairy.

Monetary policy/pricing indicators sit at 2 for the September 2019 quarter, down 5 on the previous quarter and up 6 on a year ago. The Reserve Bank's somewhat surprise decision to cut the OCR to 1.0 percent has put some downward pressure on interest rates which is feeding through into lower household debt servicing costs. Notwithstanding, household debt remains a key concern.

Business/consumer confidence indicators sit at 1 for the September 2019 quarter, up 5 on the previous quarter and up 6 on a year ago. Business confidence remains downbeat as evidenced by several surveys showing regulatory risks and an uncertain international trading environment weighing heavily although for now, consumer confidence is keeping its head above water – just.

Labour market indicators sit at -3 for the September 2019 quarter down 5 on the previous quarter and down 6 on a year ago. Unemployment hovers at around 4 percent but the outlook for the labour market has weakened with job adds slowing over recent months.

[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. Note: The results for the September quarter 2019 are estimates based on available information to date.

PART 2: THE NZ ECONOMY – WHERE ARE WE HEADING

1.1 Economic growth (GDP) – slowdown

Forecasts out to September 2021 show the NZ economy continuing to grow but at a much slower rate than previously forecast. Growth, on average, is forecast at 2.5 percent per annum out to September 2021.

Headwinds in the both the international and domestic environment are briefly considered below.

Dealing with the international environment first.

While international sharemarkets are showing some volatility, generally they are continuing to edge upwards, driven largely by very low international interest rates encouraging individuals to invest in equities. However, it is concerning that the US Dow Jones has tended to move significantly depending on President Trump's tweet for the day. This suggests some markets are being driven by public perception rather than a sound understanding of investment earnings.

Most international economic agencies have downgraded their growth forecasts based on a range of factors.

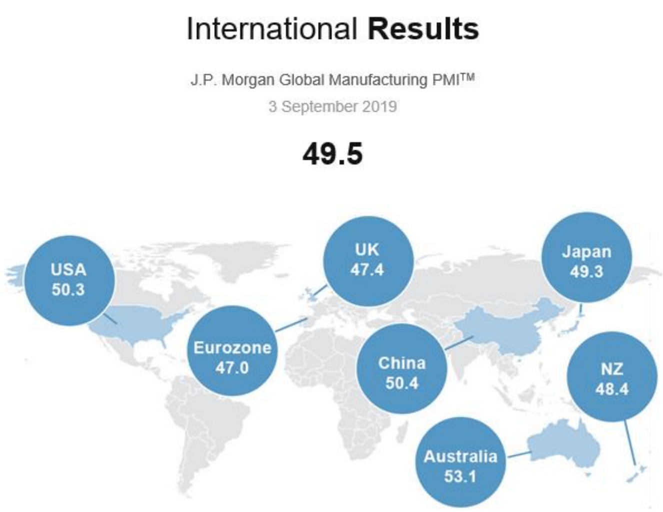
The International Monetary Fund (IMF) has revised down its forecast for world growth, particularly emphasising the sluggish growth forecast for advanced economies, indicated by the graph below.

Some key developments have led to revised downward forecasts, including the US-China escalation of trade sanctions and the prospect that global technology supply chains will be threatened.

Brexit-related uncertainty continues, while there are rising geopolitical tensions in diverse areas, Hong Kong being a good example.

Not surprisingly, investment intentions have been pared back and global trade - intensive in machinery and durables - remains sluggish.

The latest JP Morgan Global Manufacturing Survey continues in negative territory with international global optimism dropping to its lowest level since first tracked in July 2012 (see below).



Although at 49.5 in August, up slightly from July's 81-month low of 49.3, the J.P. Morgan Global Manufacturing PMI remained below the neutral 50.0-mark for the fourth month running, its longest sequence in contraction territory since 2012.

Commenting on the survey, Olya Borichevska, from Global Economic Research at J.P. Morgan, said:

"While the global manufacturing output PMI increased in August, its level remained low signaling very modest growth in manufacturing output. Away from the output index, detail of the PMI report points to weakening in activity. New order intakes fell at the joint-fastest pace in nearly seven years, business optimism dropped to a series-record low, international trade flows weakened, and the cyclically sensitive orders-to-inventory ratio hit its joint-lowest level since late 2012. Geopolitical uncertainty weighing on business capital investment remains the main drag on global industry. Developments on this front need to improve for industry to lift.

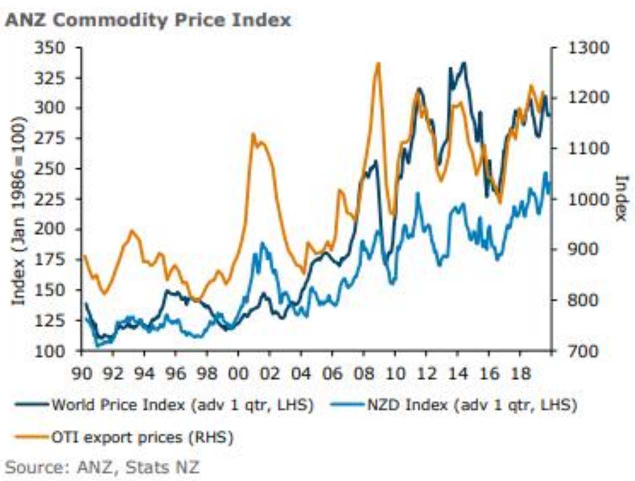
As a country dependent on international trade, NZ will not be immune from the above developments, particularly the trade spat between the US and China, which will potentially harm both countries, and ultimately their consumers.

Given NZ's reliance on China as our biggest trading partner, the outlook for China (and our second largest trading partner Australia) is crucially important to NZ's well-being. Between them, China and Australia account for around 40 percent of NZ's trade. It is therefore of fundamental importance that our trading partners are doing well.

While uncertainty over Brexit remains, the impact on NZ is likely to be relatively subdued. Trade with the UK is reasonably small (around 3 percent of NZ's total trade) and some goods can probably be diverted to other markets. But with NZ's close historical ties with the UK over the decades, this country would likely be given relatively favourable treatment in any post-Brexit trade deal.

Notwithstanding, global uncertainty, commodity prices for NZ's key exports, including dairy and lamb, have held up reasonably well and beef is also supported on the back of moves by China to slaughter large numbers of pigs as swine flu continues to devastate stock health and contaminated animals have to be killed.

The ANZ Commodity Price Index still shows solid growth - see below - driven significantly by dairy and meat prices. Fonterra, despite going through some challenging circumstances times with its write-down of certain international investments, continues to forecast a reasonably healthy milk payout for the current 2019/20 season. Nevertheless, Fonterra's shares have taken a bit of a bath over the last couple of years and are now trading at around half their value of less than 2 years ago. This will have no direct effect on Fonterra's business but will be reflected on the balance sheets of individual shareholders.

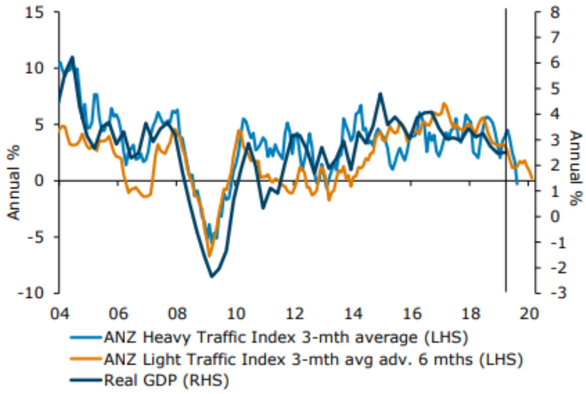


One silver lining for New Zealand producers and international investors is that a decline in the NZ dollar has boosted returns for both. Over the last month or so, the NZ dollar has tended to drift lower than that all its major trading partners, most notably against the US dollar, British pound, the euro, and the Australian dollar.

Forward-looking GDP indicators – BusinessNZ Performance of Manufacturing Index, and its sister survey, the Performance of Services Index (PSI) - show growth trending down.

Other surveys reflect similar sentiment with, for example, the ANZ Truckometer index showing the Heavy Traffic Index falling by 4.2 percent in August (see below). This does not augur well for GDP growth over the coming months even if part of the drop is attributable to lower log prices reducing recent logging activity.

ANZ Truckometer Indexes and GDP growth



Source: ANZ Research, Statistics NZ

On the domestic front, certain other issues, well beyond interest rate issues and the ability to recruit staff, are also affecting business confidence. Regulatory risk and uncertainty are now keeping businesses awake at night.

Regulatory risk covers areas as diverse as the potential cost of, and capital constraints associated with the Reserve Bank proposal to significantly raise banks' capital adequacy requirements, proposed changes to labour market regulation moving towards more centralised decision-making and the likely introduction of serious restrictions on land-use.

Capital adequacy and labour market regulation issues have had a fair airing in previous BusinessNZ Quarterly Planning Forecasts but the land use issue is now starting to focus the mind. Government has recently released, or is planning, a National Policy Statement (NPS) on such matters as Highly Productive Land, Freshwater Management and Indigenous Biodiversity.

BusinessNZ understands and welcomes the willingness to improve policy outcomes for the above areas but is concerned about the potential for some NPS to cut across current work-streams and to have an unintended impact on matters as varying as housing affordability, business growth, and land-owners' property rights.

For example, the intent of the proposed NPS on Highly Productive Land (NPS-HPL), is to protect agricultural land from development by requiring councils to consider its productive capacity in their planning and consenting decisions. From the point of view of food security and affordability this is a laudable objective, but it will potentially conflict with the Government's urban growth agenda, particularly fast-growing councils' ability to deliver enough new housing to tackle the affordability problem.

Clearly a trade-off is needed which any decision to artificially restrict land supply, particularly in high growth areas such as Auckland and Hamilton, must reflect. While the potential exists for greater brownfields development and intensification in some areas, flexibility to build out as well as up will also be essential.

Both proposals, the NPS on Indigenous Biodiversity (NPS-IB) and the NPS-HPL have the potential to create uncertainty through the application of restrictive regulatory initiatives. If misapplied, such initiatives will likely intrude on established property rights, significantly affecting individual property values.

Property rights and their enforcement are fundamental to a market economy. Without reasonable security from confiscation by the state or others, the incentive on individuals and businesses to invest and build up productive assets is severely weakened. As noted in a letter to the Minister and to ministerial colleagues, under the NPS-IB, businesses may be unable to develop if considered to be unavoidably affecting 'significant biodiversity values'.

The definitions of significant landscapes and the desire to encourage renewables development to decarbonise the energy sector will have to incorporate trade-offs.

NPS proposals for Freshwater Management (NPS-FM) will impose strict new limits on nitrogen and phosphorus throughout NZ. Perhaps of more concern, are proposals for interim controls effectively prohibiting productive land use change for at least the next five years. Landowners will be faced with proving any move to more intensive land use will not increase nitrogen, phosphorus, sediment or microbial discharges from their property above an average of the discharges from 2013-18, affecting the traditional flexibility farmers have always relied on in reacting to economic change.

Looking across the broad range of NPS proposals, either currently out for public consultation or in the pipeline, businesses are increasingly concerned that while well-intentioned, collectively, they will likely create a greater degree of uncertainty and investment risk which will reflect in reduced land prices and investment disincentives. Perhaps even more importantly, they may well lock-in current land use, failing to recognise the desirability of providing for a wide range of land use changes over time as population and other pressures require.

Forecasts: Real GDP percent Growth

	Years Ending		
	Sep 19	Sep 20	Sep 21
Highest	2.3	2.8	3.0
Average	2.3	2.5	2.6
Lowest	2.2	2.2	2.1

Source: ASB, BNZ, Kiwibank and Westpac

1.2 Monetary Policy – in dangerous territory

At its August review, the Reserve Bank lowered the Official Cash Rate to 1.0 percent. Although a further cut was not necessarily unexpected, the cut from 1.5 percent to 1.0 percent was, given there was little pressure to lower the rate by such an amount. That was certainly the majority – though not unanimous – view of the Institute of Economic Research's Shadow Policy Board at the time.

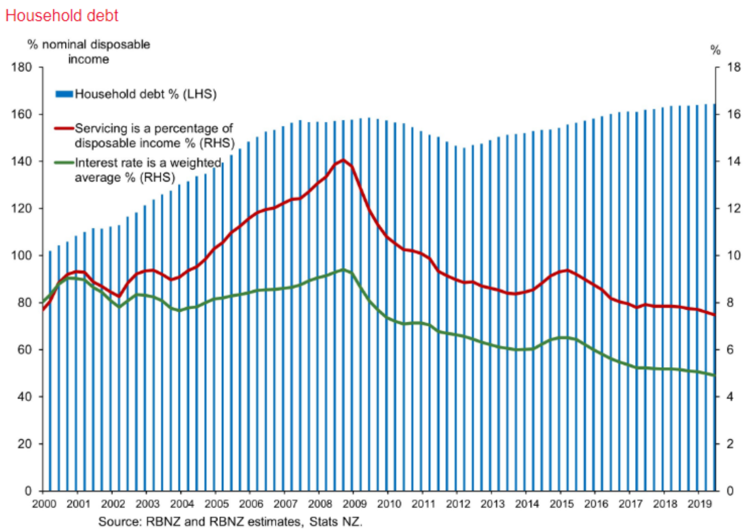
There are several reasons why the Reserve Bank might have jumped the gun in lowering the OCR to the extent it did (with some commentators saying there is more to come).

First, there is a misguided assumption (in our view) that lowering interest rates further will stimulate productive investment; businesses just need that extra reduction to make things happen and restore business confidence.

As stated earlier, business confidence to invest has little to do with interest rates (which are essentially at 60-year lows) but more to do with regulatory and international uncertainty in terms of future demand.

Second, if lower interest rates lead to the further expansion of housing demand this will simply drive up house prices while increasing household debt levels, already at historic highs.

Not surprisingly, debt servicing costs are currently relatively low given very low interest rates. However, should borrowing costs increase and/or restrictions be placed on lending to some sectors, the ability to service loans could come under significant pressure.



Third, there is certainly concern that if the economy turns to custard there will be little left in the tank. NZ is just a small step away from potentially negative interest rates.

Fourth, very low interest rates are encouraging households and individuals to look increasingly to equity markets which to date are providing much higher returns.

Pump priming equity markets may result in a much harder landing if households and investors start looking seriously behind recent share price gains, particularly the increasing margin between share price and earnings.

Finally, when interest rates rise – which at some stage they will – they will likely bite hard on households' continuing debt service capacity. Down the track, the impact on asset prices could be significant.

Interest Rates – historic low

The 90-day bill rate is forecast to remain low out to September 2021 (see forecasts below).

Given the Reserve Bank's recent stance, further interest rate cuts are not beyond the realms of possibility, although as pointed out above, there are risks.

At the international level, continued uncertainty and lack of demand have kept interest rates at very low levels – negative in some cases. Ongoing trade tensions, uncertainty over Brexit and geopolitical tensions mean low interest rates are here to stay for some time to come.

While borrowers have benefited as interest rates have declined (particularly in respect to debt servicing costs), savers have not been quite so lucky.

It has also become tougher to generate income from shares, as demand for higher yielding assets has driven share prices up and average dividend yields down.

Some savers are moving up the risk curve, acquiring additional shares and listed property securities although increased returns come with added risks.

Alternative measures such as reverse mortgages and the like may get more airtime should living off the interest from bank deposits be no longer a valid option for many semi-retired people.

Forecasts: Interest Rates (90-day bills)

	Years ending		
	Sep 19	Sep 20	Sep 21
Highest	1.2	1.0	1.3
Average	1.1	0.9	1.0
Lowest	1.0	0.9	0.9

Source: ASB, BNZ, Kiwibank and Westpac

The NZ dollar – in the zone

One silver lining for New Zealand producers and international investors over recent months is that a decline in the NZ dollar has boosted returns for both. The NZ dollar has generally tended to drift lower compared with all its major trading partners, most notably against the US dollar, British pound, the euro, and the Australian dollar.

Some further lowering of the NZ dollar is not unexpected given the Reserve Bank's bias towards an even lower OCR over coming months. Lower interest rates continue to put downward pressure on the exchange rate.

Forecasts below, show that, on balance, the $NZ is expected to remain relatively stable against both the $Australian and the $US out to September 2021.

But despite current forecasts, the risk of wild swings in exchange rates cannot be ruled out. Particular attention will be focused on international economic developments and any substantial interest rate changes.

Uncertainty over trade deals and uncertainty in general will affect the currencies of countries such as NZ, largely dependent on commodity-based exports.

Forecasts: Exchange Rates

AUD (cents)			
	Sep 19	Sep 20	Sep 21
Highest	0.95	0.94	0.94
Average	0.94	0.93	0.93
Lowest	0.93	0.91	0.92

USD (cents)			
	Sep 19	Sep 20	Sep 21
Highest	0.65	0.65	0.68
Average	0.64	0.63	0.66
Lowest	0.63	0.57	0.64

TWI			
	Sep 19	Sep 20	Sep 21
Highest	72.2	72.3	74.0
Average	71.0	70.8	72.4
Lowest	70.3	70.0	71.3

Source: ASB, BNZ, Kiwibank and Westpac

Inflation – down and out – for now

Forecasts below show inflation as measured by the Consumers' Price Index likely to remain well within the Reserve Bank's target band of 1-3 percent to September 2021.

While non-tradeable (domestic) inflation is still running at 2.8 percent per annum, tradeables inflation is still subdued.

With tradeables' inflation almost impossible for NZ policy makers to manage in any meaningful way (e.g. in respect to the recent drone attacks on Saudi Arabian oil facilities which knocked out for a relatively short time around 50 percent of Saudi oil supplies causing a brief spike in oil prices), it is perhaps more important to focus on non-tradeables' inflation as something our policy makers can control to some degree.

It is likely non-tradeables' inflation will show further upward pressure over time for a range of reasons, including the difficulty of achieving new capacity and some upward pressure finally starting to come through from higher wage rates (see below).

Forecasts: Percent Change in Inflation (CPI)

	Years Ending		
	Sep 19	Sep 20	Sep 21
Highest	1.6	2.2	1.9
Average	1.4	1.8	1.8
Lowest	1.2	1.6	1.8

Source: ASB, BNZ, Kiwibank and Westpac

1.3 Business activity and confidence – in the cellar

Business confidence is continuing to slump even further.

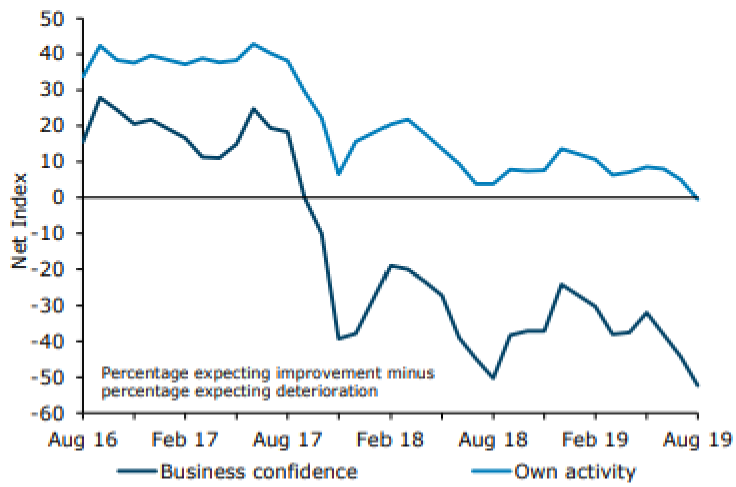
Business sentiment is largely low as a result of uncertainty, both at the international level and domestically, the latter owing to the regulatory uncertainty outlined earlier.

Despite dramatic reductions in interest rates as the Reserve Bank encourages greater expenditure and consumption, businesses will simply not open their cheque books if there is still substantial uncertainty over core issues such as property rights.

Property rights and their enforcement are fundamental to a market economy. Without reasonable security from confiscation by the state or others, the incentive on individuals and businesses to invest and build up productive assets is severely weakened.

The ANZ Business Outlook saw headline confidence fall to -52.3 in August, compared with -44.3 in July. This is the weakest level since 2008 (at the time of the Global Financial Crisis – GFC). Meanwhile firms' expectations for their own activity fell to -0.5, the lowest since 2009 and down from 5.0 reached in July.

ANZ Business Confidence Index and ANZ Own Activity Index



Source: ANZ Research

Employment and investment intentions fell, profit expectations were down, and pricing intentions stayed very subdued.

While headline confidence can fluctuate, the scary number is that of individual firms' confidence levels as these closely correlate with economic growth and point to an economy slowing rather more rapidly than many expected – certainly at the time of the May Budget, which contained what business then described as some rather heroic forecasts on growth rates.

However, although the construction and agricultural sectors remain downbeat, the services sector is still holding up reasonably well.

The agricultural sector faces several risks – both regulatory and otherwise.

As mentioned earlier, National Policy Statements (NPS) in the pipeline will act to restrict land-use and potentially adversely affect land prices, providing farmers with lower returns. Specific NPS were referred to earlier in this report. Factors such as the need for a social licence to operate will also increasingly affect the agricultural sector.

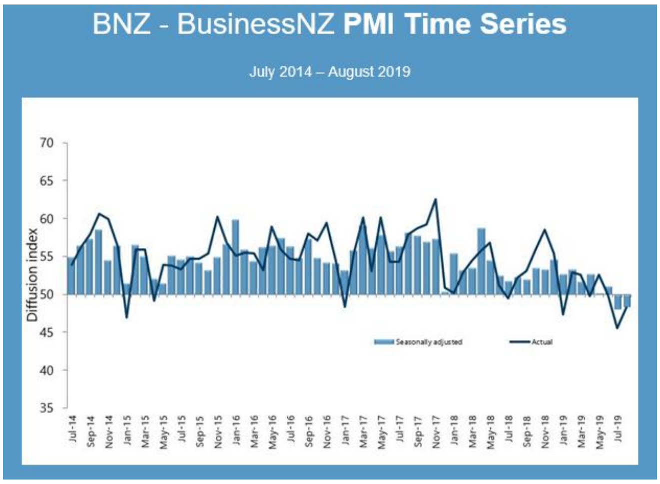
The adverse impact of some farming practices is currently focusing the mind - pollution and animal welfare issues for example - while some consumers are increasingly moving towards alternative plant-based proteins, putting added pressure on traditional farming methods.

Throw into the mix the potential impact of the Reserve Bank proposal to significantly crank up NZ banks' capital requirements and there is a recipe for the agricultural sector facing higher and more restricted credit. High levels of debt, particularly focused on the dairy sector, mean a significant reduction in agricultural land prices is not out of the question. Agriculture is being increasingly squeezed, whether we like it or not. At present, the sector is experiencing what is very much a perfect storm with little respite likely over the next few years.

Reduced business confidence is now reflected in forward-looking indicators such as the BNZ – BusinessNZ Performance of Manufacturing Index (PMI). Its sister survey, the Performance of Services Index (PSI), is holding up reasonably well, to some extent reflecting a still positive outlook for the sector as a whole.

New Zealand's manufacturing sector, however, remained in contraction for the second consecutive month, according to the latest BNZ – BusinessNZ performance of Manufacturing Index (PMI).

The seasonally adjusted PMI for August was 48.4 (a PMI reading above 50.0 indicates that manufacturing is generally expanding; below 50.0 that it is declining). While this was 0.3 points up from July, the last time the sector experienced a decline for two months in a row was 2012.



Breaking the headline result down into the key sub-index values, a few concerns stand out.

The sub-index of new orders (45.6) dived further into decline during August and is at its lowest point in over ten years (May 2009). Given production (49.7) fell from expansion in July to decline in August, further declines in new orders will typically lead to worsening of production levels in the months ahead.

Employment (49.3) showed some recovery from July but has remained in contraction for four consecutive months. Deliveries of raw materials (48.0) has also remained in a tight band of contraction between 48.0 – 48.9 for three consecutive months.

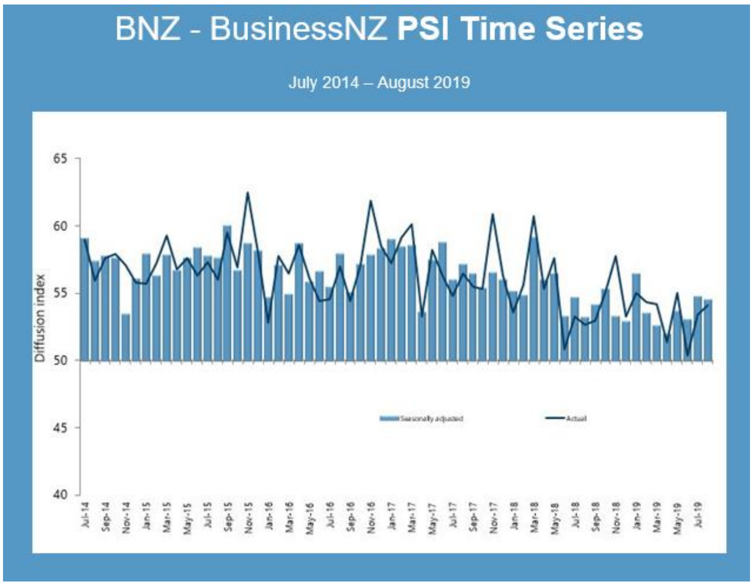
The proportion of positive comments for August 47.4%) improved from July (44.0%), although some businesses reported a general weakening of orders due to an overall economic downturn.

Meanwhile, activity in New Zealand's services sector dropped back marginally in August, according to the BNZ-BusinessNZ Performance of Services (PSI).

The PSI for August was 54.6, 0.2 points down from July (a PSI reading above 50.0 indicates the services sector is generally expanding; below 50.0 that it is declining).

Despite the slight dip in expansion levels, the services sector has managed to remain above the long-term average for a second consecutive month.

The jury is out whether the August PSI result represents the start of genuine future improvement. With its sister survey, the PMI, remaining in contraction and the average long-term difference in values between the two surveys 2.4 points, the following months will provide a steer towards whether the gap will close in a positive or negative fashion.



Of the main sub-indexes, production (56.1) decreased 1.2 points, while new orders (56.8) fell 1.6 points.

1.4 Labour market – showing signs of slowing?

The Government continues apace with its labour market reforms, many still in the pipeline.

The Government's Future of Work Programme has chosen four key work streams: just transitions, learning for life, technology and workplace productivity.

The labour market showed an unexpected robustness for the second quarter of 2019, particularly as growth rates are declining both domestically and internationally. Unemployment, at 3.9 percent, was the lowest it has been since June 2008. Incomes also rose largely on the back of minimum wage rises which flowed through to specific sectors of the economy.

Notwithstanding relatively strongly quantitative data on labour market outcomes to date, there are risks that employment growth could stall, while unemployment may rise again for the September quarter.

Although the unemployment rate is forecast to remain broadly stable at around 4 percent out to September 2021 (see below), there are potential risks to labour market outcomes. These include a continuing relatively low level of business confidence with an easing of both investment and employment intentions and the impact of labour market changes potentially reducing flexibility and increasing business costs, thereby making businesses less competitive.

While a headline unemployment rate of around 4 percent could be considered close to full employment (given the fact that there will be people between jobs i.e. frictional unemployment), there is still the problem that over 10 percent of youth (15-24 year olds) are not in employment, education, or training (NEETs). The overall the number of NEETS has declined significantly from a decade ago, but the concern remains that there are currently many youths with no form of attachment to the labour market.

Online job advertisements have tended to trend down of late while the latest BNZ – BusinessNZ Performance of Manufacturing Index (PMI) shows employment (49.3) for August as slightly improved from July although it has remained in contraction for four consecutive months.

Given the relatively strong relationship between the headline PMI figure and GDP growth, expectations are for a further easing over coming months.

Other surveys show perceptions about job opportunities decreasing over the past 6 months suggesting that, combined with the quantitative data outlined above, the unemployment rate is likely to increase rather than reduce any further.

Forecasts: Unemployment percentage (HLFS)

	Quarter		
	Sep 19	Sep 20	Sep 21
Highest	4.2	4.3	4.1
Average	4.1	4.2	3.9
Lowest	4.0	3.9	3.8

Source: ASB, BNZ, Kiwibank and Westpac

Labour Costs – some upward movement?

Notwithstanding modest increases in wage rates to date, significant increases in the minimum wage over the next couple of years, plus potential pay equity settlements, will likely have flow-on effects to other employment areas as relativity arguments are raised. The Government's proposed regulatory regime for the labour market is also likely to ratchet up labour costs, more so than in the past, given a generalised move towards more centralised bargaining arrangements.

Forecasts below show some slight increase in labour costs, but relatively low levels of business confidence and businesses' subdued employment intentions outlined above, could see wage rises remaining tightly controlled.

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

	Years Ending		
	Sep 19	Sep 20	Sep 21
Highest	2.2	2.5	2.4
Average	2.2	2.3	2.3
Lowest	2.1	2.1	2.2

Source: ASB, BNZ, Kiwibank and Westpac