BUSINESS NZ

PLANNING FORECAST

MARCH 2014

BusinessNZ

NZ Economy – Sunny Disposition

Executive Summary

The sun continues to shine on the NZ economy as evidenced by the continued strength of the key economic performance indicators.

The BNZ - BusinessNZ Performance of Manufacturing Index (PMI) and the Performance of Services Index (PSI) show economic growth remaining at respectable levels and increasingly spreading into other sectors, the agricultural and construction sectors included.

Other key economic growth indicators, such as ANZ Truckometer (a measure of freight movements), also show continuing improvement, net migration inflows continue to surge and a multitude of business and consumer confidence surveys indicate that confidence over the broader economy remains at very elevated levels. Employment numbers (employment is often the last indicator to improve), are starting to increase and unemployment is projected to dip below 6% in the March quarter 2014.

Factors positive for the future growth of the NZ economy include:

- Continued strong demand for NZ commodities, particularly dairy, in China
- The strong rise in net migration inflows adding to the demand for goods and services
- Earthquake strengthening of commercial buildings
- A strong lift in investment in plant, machinery and equipment
- A strong growth in freight movement – a key indicator of future growth
- The ongoing Christchurch rebuild
- An improving labour market adding to household demand as incomes rise
- An improving Australian economy

As with any economy, there are risks.

New Zealand's reliance on China, and to a lesser extent Australia, exposes the country to significant risk if either economy fails to perform.

In aggregate, around 50% of NZ exports are centered on Australia and China, underlining the need for both countries to perform well if New Zealanders are to reap the benefits arising from a growing middle class demand for protein, particularly in China.

Second, interest rate rises will likely impact on export sector competitiveness, particularly given NZ is one of the first countries in the developed world to raise interest rates. The potential for flow-on impacts on the NZ dollar should not be readily discounted.

Third, household debt levels remain a concern with agricultural debt, largely in dairy farms, currently sitting at $50 billion.

Any significant rise in interest rates will adversely affect households, many having taken advantage of historically low floating rates over the last few years. A fast rise in the OCR would likely mean some would miss the opportunity to lock in a relatively low fixed rate for the next few years.

HIGHLIGHTS

The BusinessNZ Economic Conditions Index (ECI) sits at 17 for the March 2014 quarter, up 4 on the previous quarter and up 3 on a year ago.

Key economic indicators continue to track in positive territory, while forward-looking indicators such as business and consumer confidence remain at elevated levels.

Export growth continues, largely on the back of continued improvements in dairy volumes and prices.

NZ's major trading partners are still performing reasonably well despite data suggesting a slow-down in the growth rate forecast for China to around 7% per annum. Australia's economic data is starting to improve, as evidenced by the latest Australian Performance of Manufacturing (PMI) and Performance of Services (PSI) indices.

Despite a generally positive outlook, risks remain – particularly the impact of significant rises in the cost of capital.

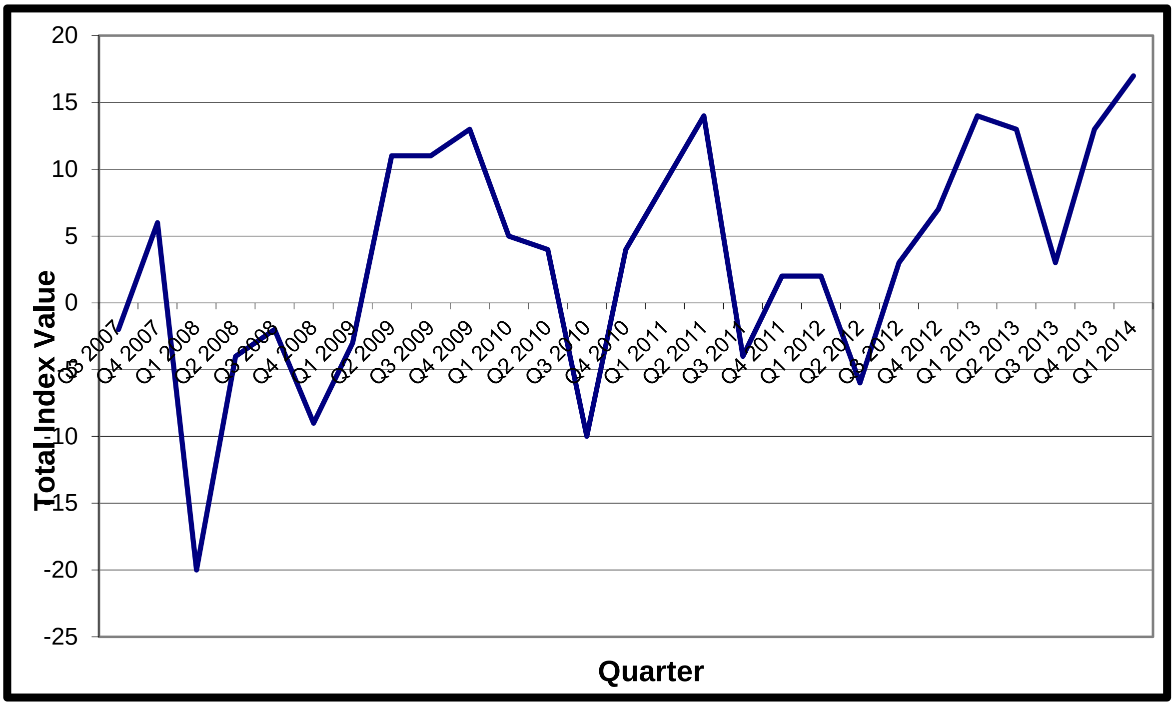
High levels of debt continue to be a concern, with household debt levels again on the rise and farm debt, particularly in dairying, remaining high.

PART 1: THE NEW ZEALAND ECONOMY – WHERE ARE WE NOW?

BusinessNZ Economic Conditions Index (ECI)

The overall BusinessNZ Economic Conditions Index (a measure of the major economic indicators) sits at 17 for the March 2014 quarter, up 4 on the previous quarter and an improvement of 3 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

In terms of the ECI sub-groups:

Economic growth/performance indicators sit at 4 for the March 2014 quarter, up 1 on the last quarter and the same as a year ago. Continued growth in commodity prices, particularly dairy, has resulted in the highest terms of trade in 40 years.

Monetary policy/pricing indicators sit at 1 for the March 2014 quarter, up 1 on the last quarter and up 1 on a year ago. Interest rate rises, while well signalled by the Reserve Bank, are likely to put upward pressure on the NZ dollar – at least over the short term.

Business/consumer confidence indicators sit at 5 for the March 2014 quarter, up 2 on the previous quarter and the same as a year ago. Business and consumer confidence surveys show sentiment remains at elevated levels across most sectors, boding well for future broad-based growth.

Labour market indicators sit at 7 for the March 2014 quarter, the same as the previous quarter and up 2 on a year ago. After a slow start, NZ is now experiencing relatively strong employment growth while unemployment should dip below 6% in the March 2014 quarter.

[1] The ECI tracks 32 indicators on a quarterly basis. The overall index value for any particular quarter represents the net balance of the 32 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.

PART 2: THE NEW ZEALAND ECONOMY – WHERE ARE WE GOING?

1.1 Economic growth (GDP) – approaching 4%

Economic growth is forecast to be knocking on the door of 4% for the year ending March 2015 (see below), making NZ one of the faster growing economies in the Organisation for Economic Cooperation and Development (OECD).

Forecasts: Real GDP % Growth

	Years Ending		
	Mar 14	Mar 15	Mar 16
Highest	3.1	4.2	3.1
Average	3.1	3.9	3.0
Lowest	3.0	3.6	2.8

Source: ANZ, ASB, BNZ, and Westpac

Factors positive for the economy's future growth are outlined below (in no particular order of importance):

- **Continued strong demand for NZ commodities, particularly dairy, in China**

Strong international demand has boosted commodity prices (dairy in particular) and is reflected in NZ's best terms of trade since 1973.

In January 2014, goods exports were valued at $4.1 billion, up 22 percent from a year earlier, coinciding with the overwhelming importance of China as an export destination.

While not too much should be read into the results for 1 month, in January 2014 around 30 percent of total exports went to China, compared with 19 percent in January 2013. Australia accounted for 14 percent of total exports, compared with 19 percent at the same time last year.

The ANZ Commodity Price Index, in world price terms, is 22.4 per cent ahead of the previous year. When converted into NZ dollars, this represents a 24.4 per cent increase on a year ago.

ANZ Commodity Price Index

	World Price Index	Annual % Change	NZ$ Index	Annual % Change
Feb 2010	242.4	41.6	189.0	5.5
Feb 2011	298.6	23.2	212.8	12.6
Feb 2012	290.0	-2.9	189.2	-11.1
Feb 2013	275.7	-4.9	177.9	-5.9
Feb 2014	337.4	22.4	221.4	24.4

Source: The ANZ

Not surprisingly, Fonterra has raised its forecast Farmgate Milk Price for the 2013/14 season by 35 cents to a record level of $8.65 per kgMS.

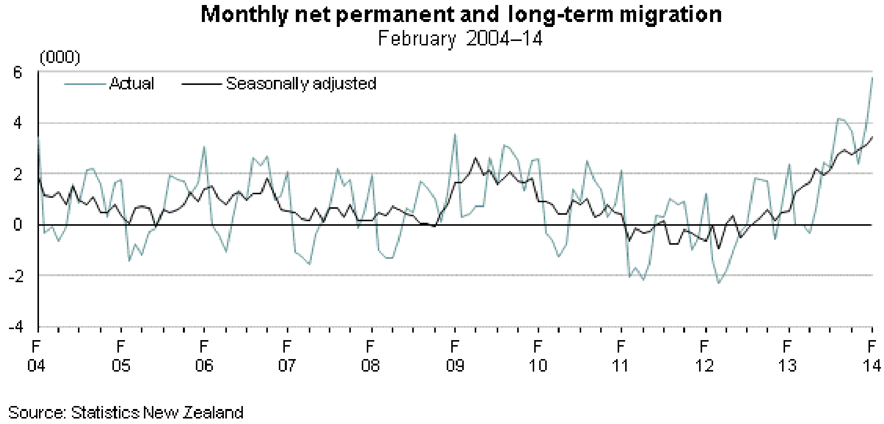
- **Strong rise in net migration inflows to add to demand for goods and services**

A turnaround in NZ migration fortunes over the last year has resulted in significant net migration inflows after a number of years in which New Zealand lost thousands of people to other countries, particularly Australia. The net loss of 15,000 people to Australia in the February 2014 year was well down from the loss of 36,700 in the February 2013.

In the year to February 2014, there was a net inflow (permanent and long-term migration) of 29,022 (compared with a net inflow of 1,195 in the previous year and a net outflow of 4,068 in the year to February 2012, the highest net gain in a decade.

New Zealand recorded net gains of migrants from most other countries in the February 2014 year, led by China (6,100), India (5,800), the United Kingdom (5,800), the Philippines (2,500), Germany (2,300) and France (1,700).

Such inflows will add to the demand for goods and services but will also increase housing demand, thereby imposing inflationary pressures, particularly in Auckland.



- **Earthquake strengthening of commercial buildings**

Requirements to upgrade earthquake-prone buildings (a Bill is currently winding its way through Parliament) will result in significant upgrading activity over the next two decades. Numbers of buildings are currently being assessed and upgrading work is already underway to ensure buildings meet (at least) the minimum standards that will be required when the Bill becomes law.

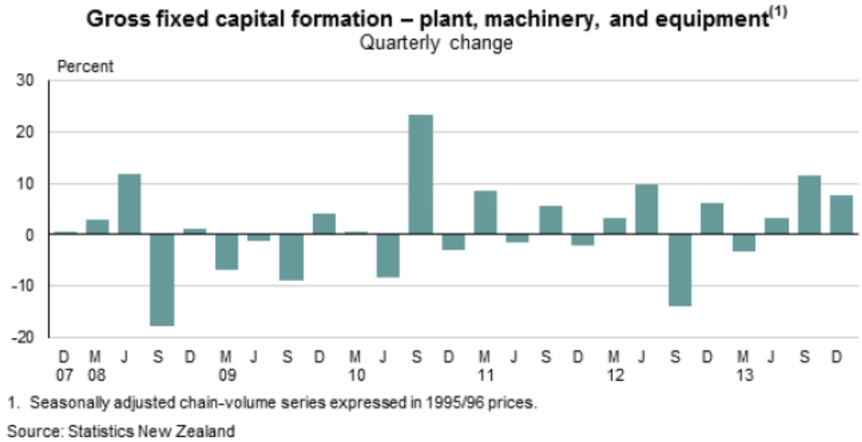
One could question the need for the Building (Earthquake-prone Buildings) Amendment Bill given that building and earthquake risk can be managed through normal insurance principles i.e. the degree of risk will be reflected in higher (or possibly lower) insurance costs, helping building owners to decide rationally on the decision they should make.

A possible unintended consequence could see the new Act sending building owners the false hope that by meeting its minimum requirement of 34% of the current building code their building will somehow be "safe" from earthquake risk, when in reality, building resilience is dependent on a range of factors.

- **Strong lift in investment on plant, machinery and equipment**

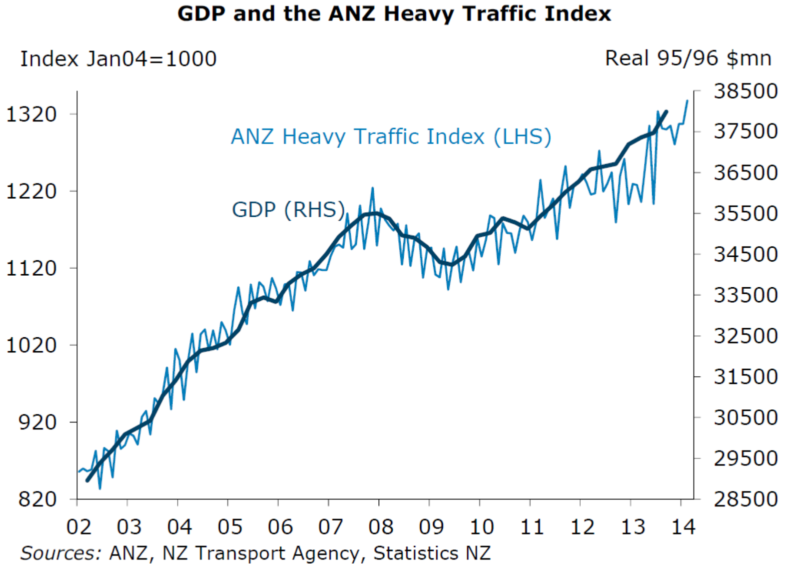
Since mid-2013 there has been a significant lift in investment in plant, machinery and equipment, boding well for future economic growth. While in previous years investment levels have been patchy to say the least, over more recent quarters there has been a consistently strong uplift. For the first time since June 2008 there have been 3 consecutive quarters of increased investment in plant, machinery and equipment.

For the December 2013 quarter, investment in plant, machinery and equipment was up 7.5 percent (and is now at its highest-ever level), following 11.6 per cent rise in the September quarter and a 3.2 per cent rise in the June quarter. Such consistent investment levels augur well for significant growth of around 4 per cent this year and beyond.



- **Strong growth in freight movement ….a key indicator of future growth**

The ANZ Bank Truckometer, which measures heavy traffic movements, has continued to show strong growth over recent months. Historically, there has been a relatively close relationship between this index and future GDP growth (see below) - yet another sign of an economy where prospects continue to improve.



- **The ongoing rebuild of Christchurch….**

Despite some ongoing blips, the rebuild continues apace, as reflected in very strong economic activity levels reported in the Canterbury region.

- **Improving labour market will add to household demand as incomes rise**

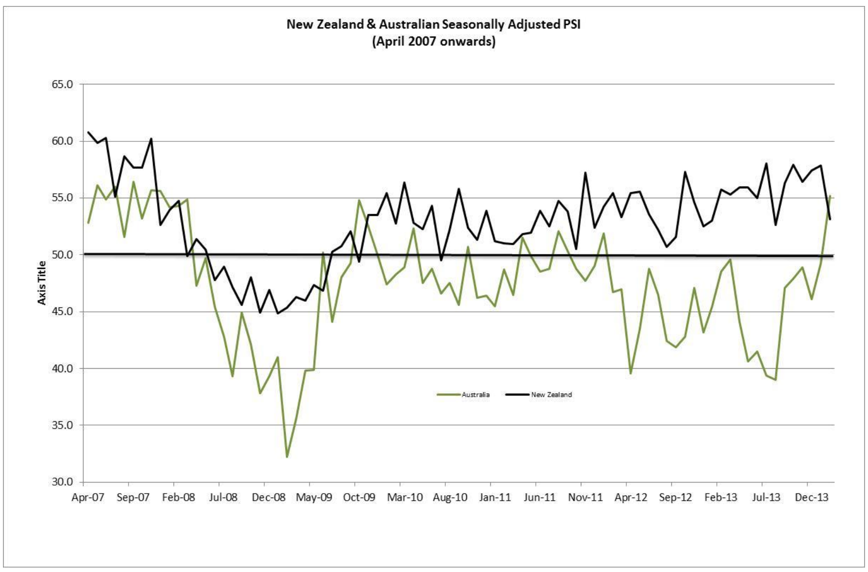
While labour market activity will be covered more comprehensively later in this publication, an improving labour market will add to household incomes and hence demand and of late is starting to be reflected in improving retail sales and electronic transactions.

- **The Australian economy is on the improve**

Given Australia's continued importance as an export destination, it is in NZ's interests that Australia does well.

While the latest export data suggests that Australia's traditional dominance as an export destination has been overtaken by China, the Australian economy is not performing as badly as some commentary has suggested.

Over recent months, both the Australian Performance of Manufacturing Index (PMI) and the Australian Performance of Services index (PSI) have recovered strongly. The PSI, after being decidedly sick for most of 2012 and 2013, is now back above NZ's PSI, as can be seen from the graph below.



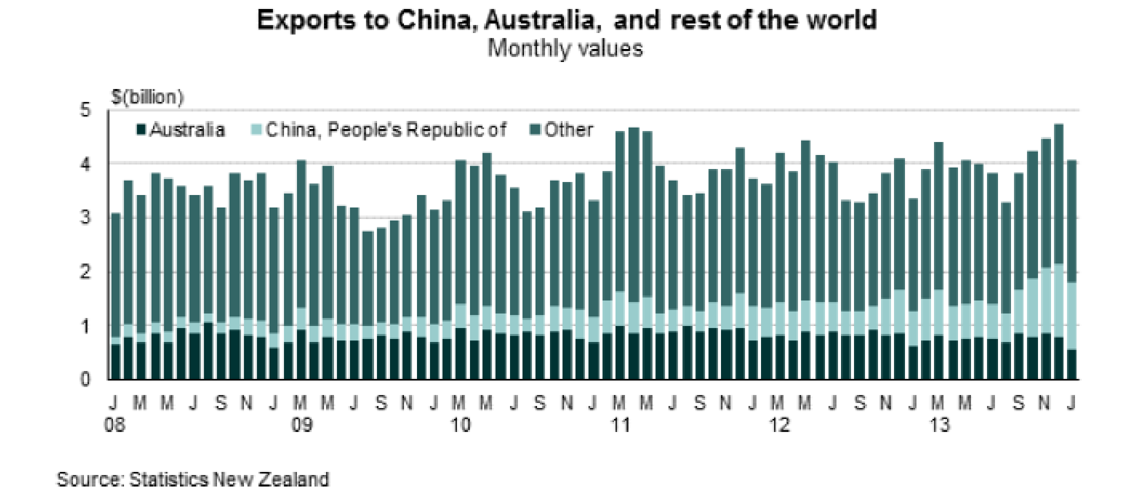
While, as outlined above, a raft of positive factors will impact on NZ's growth prospects, a number of factors may act to constrain growth over the medium term.

These include:

- **The future outlook for the international economy….particularly our major trading partners**

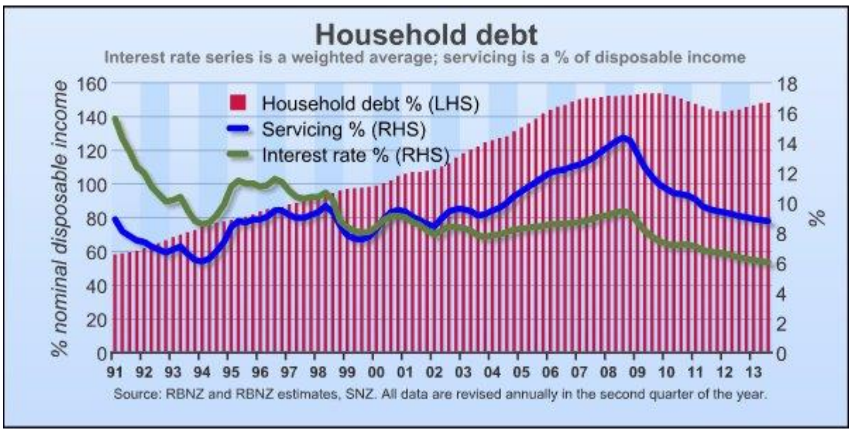
As mentioned earlier, there is strong demand for NZ's agricultural commodities by NZ's major trading partners, particularly China, with this greater demand reflected in historically high prices and the best terms of trade in 40 years. While currently a positive for NZ, the country remains dependent on its key export markets continuing to improve.

In aggregate, around 50% of NZ exports are centered on Australia and China, underlying the importance of both these countries performing well if New Zealanders are to reap the benefits associated with a growing middle class demand for protein, particularly in China.



- **Rises in the cost of capital given NZ household's relatively high debt levels**

Household debt levels remain a concern and many will be affected if interest rates rise significantly. While the agricultural sector continues to boom and provide valuable exports dollars, agricultural debt, largely in dairy farms, is currently sitting at around $50 billion.



There is an increasing risk of relatively rapid rises in the OCR as the Reserve Bank grapples to control inflation next year and beyond.

Interest rate rises will also likely impact on export sector competitiveness, particularly as NZ is one of the first countries in the developed world to raise interest rates. The potential for a flow-on effect to the NZ dollar should not be readily discounted.

- **Regulatory uncertainty**

Investors loathe risk and require significant margins to compensate for known (and for potential but unknown) risks, particularly when investing in long-life assets with high sunk costs. Any change in the rules of engagement, with neither adequate time to prepare nor compensation for loss, will constrain much-needed investment. This is the basis for BusinessNZ's strong support for a sound and principled Regulatory Responsibility Act, complementing NZ's sound stance on fiscal policy (contained in the Public Finance Act) and best practice monetary policy (enshrined in the Reserve Bank Act).

1.2 Monetary Conditions – tightening starts

Interest rates – moving upwards

The 90-day bill rate is forecast to increase to 4.1 per cent by March 2015 and further to 4.7 per cent by March 2016, as evidenced by the forecasts below. Meanwhile, long-term interest rates have already risen substantially as long-term fixed rate mortgages start to rise.

Forecasts: Interest Rates (90 day bills)

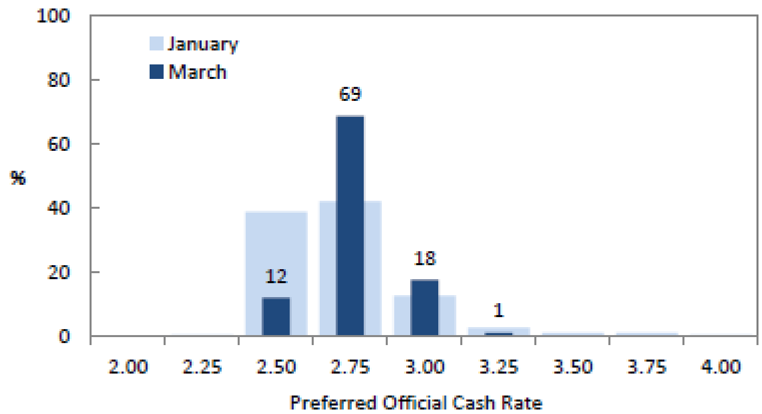
	As at end of		
	Mar 14	Mar 15	Mar 16
Highest	3.2	4.4	5.2
Average	3.1	4.1	4.7
Lowest	3.0	3.7	4.2

Source: ANZ, ASB, BNZ, and Westpac

Prudent advance Reserve Bank signalling of the intended OCR rise enabled markets to factor in the 13 March 2.5 per cent to 2.75 per cent increase, easing concerns about further potential strengthening of the dollar.

The New Zealand Institute of Economic Research's (NZIER) Shadow Monetary Policy Board (which has the task of recommending interest rate settings ahead of each decision by the Governor of the Reserve Bank) found most of its members supported moving the OCR up to 2.75 per cent.

NZIER's Shadow Board says interest rates need to move higher



Notwithstanding the above, further interest rate rises need to take into account the unique situation facing markets since the global financial crisis, including that globally and in New Zealand, interest rates are at historic low levels (see below).

Major Central Banks Overview

Central Banks	Current Interest rate	Next Meeting	Last Change
Bank of Canada	1.000 %	04-16-2014 - 14:00	09-08-2010 - 13:00
Bank of England	0.500 %	04-10-2014 - 11:00	03-05-2009 - 12:00
Bank of Japan	0.100 %	04-08-2014 - 03:00	12-19-2008 - 05:27
European Central Bank	0.250 %	04-03-2014 - 11:45	11-07-2013 - 12:45
Federal Reserve	0.250 %	03-19-2014 - 18:00	12-16-2008 - 19:15
Reserve Bank of Australia	2.500 %	04-01-2014 - 04:30	08-06-2013 - 04:30
Reserve Bank of New Zealand	2.750 %	04-23-2014 - 20:00	03-12-2014 - 20:00
Swiss National Bank	0.000 %	03-20-2014 - 08:30	08-03-2011 - 07:00

Given that monetary policy is focused on inflation one or two years down the track, it will be important for the Reserve Bank to monitor activity carefully, taking account of the factors driving inflationary pressures.

High levels of household debt, as outlined earlier, leave borrowers vulnerable to significant interest rate rises. But the lessons of the past suggest that a failure to start early enough will likely lead to increased tightening later on.

Irrespective of how the Reserve Bank moves interest rates up to more "neutral" levels, government can support monetary policy by controlling spending and through sound regulatory policy and the promotion of competitive markets.

A key regulatory concern is to ensure land supply is not artificially constrained, causing further housing market inflation.

The New Zealand dollar

Forecasts below show the NZ dollar is generally expected to drift lower against both the Australian and US dollar.

Forecasts: Exchange Rates

AUD (cents)			
	Mar 14	Mar 15	Mar 16
Highest	0.94	0.96	0.91
Average	0.94	0.93	0.89
Lowest	0.93	0.91	0.88

USD (cents)			
	Mar 14	Mar 15	Mar 16
Highest	0.85	0.82	0.80
Average	0.84	0.79	0.75
Lowest	0.83	0.77	0.70

TWI			
	Mar 14	Mar 15	Mar 16
Highest	80.6	79.2	76.5
Average	79.2	76.7	73.6
Lowest	78.4	74.0	70.0

Source: ANZ, ASB, BNZ, and Westpac

Notwithstanding such forecasts, over the short-term at least, there is likely to be further upward pressure on the NZ dollar against our major trading partners simply because of the country's relatively strong projected growth and a relatively stable economic environment. Perhaps even more importantly, NZ is raising interest rates at a time when most developed countries have interest rates close to zero. This could put upward pressure on the NZ dollar – despite rises being well signalled by the Reserve Bank.

Inflation - known pressures well highlighted

Forecasts outlined below show inflation likely to rise slightly to reach 2.6 per cent by March 2015, still within the Reserve Bank's target band of 1-3 per cent.

Forecasts: % Change in Inflation (CPI)

	Years Ending		
	Mar 14	Mar 15	Mar 16
Highest	1.9	2.5	3.1
Average	1.7	2.2	2.6
Lowest	1.6	1.8	2.3

Source: ANZ, ASB, BNZ, and Westpac

Drivers of inflationary pressures include:

- Increased net inward migration adding to demand pressures
- Elevated housing demand, particularly in Auckland, as building activity tries to catch up with pent-up demand
- Relatively strong demand for NZ commodities underpinning domestic prices for staple products e.g. meat and dairy products
- Earthquake-strengthening building costs, probably increasing costs for premium rental accommodation as many organisations become more selective about the buildings they are prepared to rent
- Continuing rebuild capacity pressures in Christchurch
- A rapidly improving labour market outlook putting increased pressure on wage rates
- Repricing of insurance risk resulting result in significant insurance premium rises across the board.

On the other hand , some factors are acting to take to the heat out of inflationary pressures:

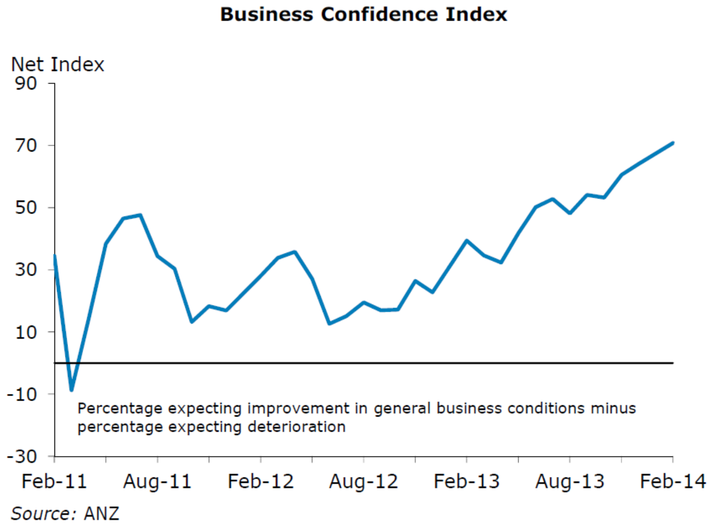
- An elevated exchange rate (to date taking the heat out of any tradables sector inflation)
- Recent interest rate rises acting to subdue demand, particularly given high levels of household debt
- Strong and continuing competition in many sectors continuing to keep a lid on general price hikes.

1.3 Business and consumer confidence – on a high but we shouldn't get carried away

Business confidence – elevated….. but results need to be seen in context

While business confidence has continued at elevated levels, as evidenced by numerous surveys, we should not get carried away with the idea that business confidence will necessarily translate into much higher growth rates than currently.

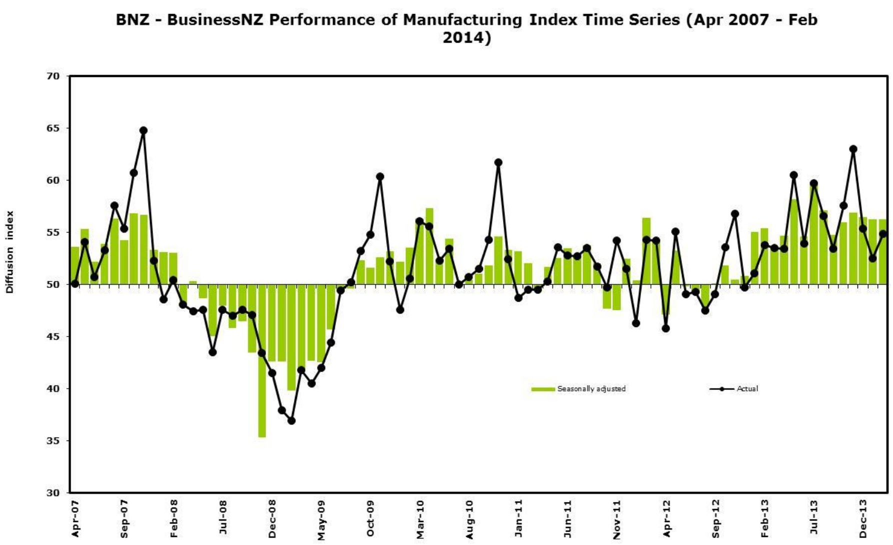
On the positive side, the ANZ Business Outlook showed that for the month of February 2014, a net 71 per cent of respondents expected business conditions to improve over the year ahead – the highest reading since March 1994. More importantly, the breadth of confidence across all major sectors was extremely encouraging and bodes well for solid growth.



At the firm level, a net 59 per cent expected more activity over the coming year for their own business, a high level of expectation by historical standards and the highest since June 1994.

Most of the survey's key components generally remained at elevated levels although with some pressures developing in respect to both pricing intentions and expected lifts in interest rates (a net 90 per cent expect higher interest rates over the year ahead).

The BNZ-BusinessNZ seasonally adjusted PMI for February stood at 56.2, almost the same as the previous month. The sector has now been in expansion for 18 consecutive months, with the last five months in a tight and consistent expansionary band between 56.0 and 56.9.

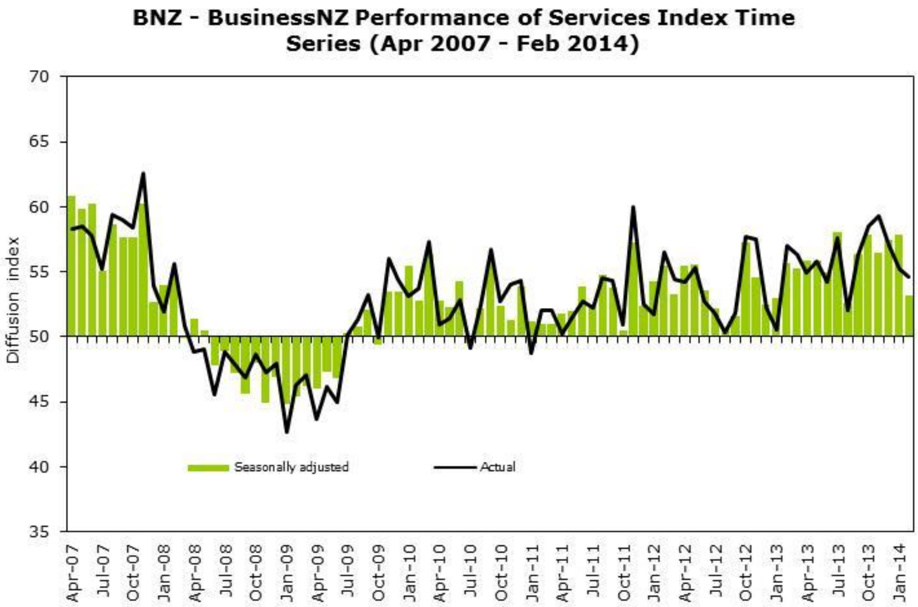


Four of the five seasonally adjusted main diffusion indices continued to be in expansion during February. *Production* (58.9) produced the highest level of expansion for the first time since July 2013, as *new orders* (56.9) slipped to its lowest level since June 2013. *Employment* (54.4) rose 3.2 points to record its second highest level since May 2013. *Deliveries of raw materials* (58.1) was similar to January, while *finished stocks* (49.2) increased slightly from the previous month.

Manufacturing by industry sub-groups were almost all in expansion during February. *Petroleum, coal, chemical & associated product manufacturing* (56.0) went back into positive territory after a decline in January, while *metal product manufacturing* (55.0) decreased 4.3 points but remained in expansion. *Machinery & equipment manufacturing* (55.0) activity was similar to the previous month, while *food, beverage & tobacco manufacturing* (65.0) recorded its highest result since November last year.

The proportion of positive comments for February (58.8%) was broadly similar to January (59.2%). Globally, the JPMorgan Global Manufacturing PMI (53.3) hit a 34-month high in February, maintaining a gradual upwards trend since April of last year.

The seasonally adjusted BNZ – BusinessNZ Performance of Services Index (PSI) for February stood at 53.1, down 4.7 points from January and similar to levels of expansion last seen in August 2013. For the last six months, the PSI has averaged 56.5.



Source: BusinessNZ

As for the previous month, three of the five main sub-indices were in expansion during February. *New orders/business* (56.1) recorded its first sub-60 value after reaching 62.9 in January. *Employment* (53.6) dropped 1.4 points from January, although still showed encouraging growth. *Stock/inventories* (48.4) improved 2.5 points from January, while *supplier deliveries* (49.7) rose 2 points.

Activity was positive across most of the country in February. In the North Island, the *Northern* region (57.7) displayed similar levels of activity compared with both December and January, while the *Central* region (59.7) recovered from a lacklustre January to come close to reaching the 60-point mark. In the South Island, the *Canterbury/Westland* region (43.4) again fell back into contraction, while the *Otago/Southland* region (54.0) recorded a lower level of expansion.

Service sector results by sub-sector were again mostly positive during February, with seasonal factors clearly evident. After the festive/holiday season rush, *retail trade* (43.6) fell back while *wholesale trade* (58.6) remained in positive territory, albeit after a higher level of activity in January. *Accommodation, cafes & restaurants* (61.3) remained almost identical to the previous month's result, while property & business services *(57.6) picked up as most people returned from holidays. Health & community services* (51.1) also picked up, while *transport & storage* (64.8) showed strong growth.

Federated Farmers Mid-Season Farm Confidence Index shows healthy levels of farmer confidence, although recent concerns about pockets of drought in the northern region will have reduced confidence in some areas since the survey's results were analysed 6 weeks ago. However, overall, production appears largely unaffected to date; any reduction in output would have likely been compensated for by higher projected dairy payouts.

Consumer confidence – high…. but may take a hit

Consumer confidence remains firmly in positive territory but admittedly neither quantitative nor qualitative data take into account the recent OCR rise (and further projected rises for the remainder of the year). High levels of household debt remain the Achilles heel.

The key ingredient – a notable improvement in labour market outcomes - will be a significant driver ensuring confidence remains at high levels into 2015. Recent forward-looking indicators, such as job ads and employment intention surveys, bode well, despite the fact that interest rate rises will start to bite towards the end of the year.

1.4 Labour market – positive outcomes ahead

Employment – on the rise

Employment growth is on the rise with associated reductions in unemployment forecast, as outlined below. The unemployment rate is expected to reach 5.0 per cent by March 2016 (see below).

Forecasts: Unemployment % (HLFS)

	Quarter		
	Mar 14	Mar 15	Mar 16
Highest	5.9	5.5	5.4
Average	5.8	5.4	5.0
Lowest	5.7	5.1	4.8

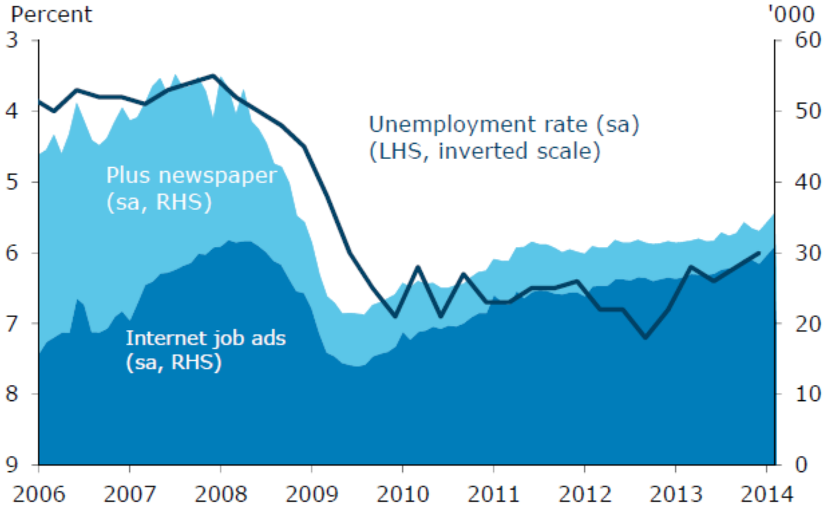
Source: ANZ, ASB, BNZ, and Westpac

The BNZ - BusinessNZ PMI and PSI show solid growth in employment outcomes, both in the manufacturing and services sectors. Other business confidence surveys also indicate strong employment growth prospects, particularly in the construction sector. The BNZ-BusinessNZ PMI employment sub-index sat at 54.4 for the month of February 2014. Meanwhile the PSI sat at 53.6.

The ANZ NZ Job Ads series shows a reasonably positive outlook for job growth.

The number of job ads lifted 3.7 percent in February (on a seasonally-adjusted basis), building on the same-sized lift in January, suggesting that when official House Labour Force Survey (HLFS) data is released for the March quarter 2014, the unemployment rate will have a 5 in front of it.

Job ads and the unemployment rate



Sources: ANZ, Statistics NZ, Seek, Trade Me, Dominion Post, Hawke's Bay Today, Manawatu Standard, NZ Herald, ODT, The Press, Waikato Times

Other indicators of employment growth are also very positive, as evidenced by the 10 per cent increase in job ads from SEEK. Over 22,000 new job ads were posted on seek.co.nz in February 2014 compared with just 20,000 for the equivalent period last year.

Relatively strong growth in net inward migration will also boost demand for goods and services and hence provide employment opportunities.

Labour productivity growth improving

Productivity is key to improving NZ's standard of living and is a major driver of non-inflationary growth. Statistics NZ's latest productivity statistics give an encouraging picture of NZ's labour productivity of late.

Labour productivity growth in the year to March 2013 was 2.1 per cent, significantly above the average annual rate of 1.6 per cent recorded over the last 17 years. At the same time, capital productivity increased slightly (by 0.1 per cent) while multifactor productivity (MFP) grew by 1.2 per cent. MFP is measured as a ratio of output to combined capital and labour inputs (total inputs), reflecting output growth that cannot be attributed to growth in capital or labour inputs, such as technological change or improvements in knowledge, methods and processes.

While the latest results provide a welcome respite from previously disappointing productivity growth statistics, not too much should be read into them for a year or so as they can move about depending where the economy is in the growth cycle. But they do provide a sense that better resource utilisation has occurred over the last year or so as firms have needed constantly to improve in order to remain internationally competitive.

Labour costs – slowly rising

Forecasts below indicate that labour costs are expected to increase only slowly to around 2.4 per cent for the year ending March 2015 and 2.3 per cent for the year ending March 2016. This is very much in line with the long-run average for the Labour Cost Index and is up slightly on recent annual increases which have averaged around 1.7 per cent. Forecasts largely reflect the pick-up expected in labour market outcomes predicted over the medium term.

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

	Years ending		
	Mar 14	Mar 15	Mar 16
Highest	1.8	2.7	2.5
Average	1.7	2.4	2.3
Lowest	1.7	2.2	2.1

Source: ANZ, ASB, BNZ, and Westpac

Private sector salary and wage rates (including overtime) increased 1.7 per cent in the year to the December 2013 quarter. Public sector salary and wage rates (including overtime) also increased 1.4 per cent in the year to the September 2013 quarter.

There will likely be some upward wage pressure over the coming year as labour resources become increasingly constrained.