

Little starts well

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There's a palpable spring in the step of the Labour Party following a strong first fortnight for its new leader, Andrew Little. His shadow Cabinet is shrewdly chosen, he has looked effective when exploiting opportunities gifted by the Prime Minister, and has made his first major policy speech.

Key's whale of a headache

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John Key should be at the top of his game, having won an election handily, presiding over a robust economy and hitting his straps on the global stage. Instead, he is mired in a tatty scandal over his continued contact with Cameron Slater. Does it matter? For a third term PM, it should.

Fonterra payout heading under \$5 per kg/Ms?

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The Fonterra board meets next week amid growing indications that the payout forecast for the current season of \$5.30 per kg of milksolids can't be sustained and that the figure will head well below \$5. An announcement pre-Christmas is expected.

OPEC vs US shale oil

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By maintaining oil production at current levels, OPEC heavyweight Saudi Arabia is simultaneously challenging the less profitable US shale oil producers, who will come under pressure around US\$60 per barrel, and maintaining pressure on global pariah, Russia.

Victorian election blow for Abbott

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Despite a relatively strong state economy, Victoria's Liberal Coalition govt lost heavily in elections at the weekend, although the incoming Labor administration faces challenges in the state Senate, where several minor parties hold the balance of power.

EPA's expert shortage

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The Environmental Protection Authority warns in its briefing to incoming ministers that finding enough commissioners for nationally significant resource consent hearings is problematic.

New TWI to underline China relationship

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The Reserve Bank will launch its new trade-weighted index on Dec 15, based on 17 currencies instead of the current five, with the Chinese yuan accounting for 19% of the weighting in the new measure, underlining the importance of China after last month's state visit by Xi Jinping.

Forecasts at a glance

	INFLATION ann % change	GROWTH ann avg % change	\$ v \$US spot rate	\$ v \$A spot rate	WORLD GROWTH annual avg % change	TRADING PARTNERS annual avg % change
December 2015	1.7%	3.4%	70.0c	86.4c	3.1%	4.2%
December 2016	2.6%	1.8%	66.0c	84.6c	3.2%	4.3%
December 2017	2.2%	1.1%	64.7c	89.4c	3.0%	4.1%

Little starts well, with help from Key, and a team is forming

Some optimism is returning to Labour after Andrew Little's skilful remake of his shadow cabinet and John Key's mishandling of the report on the Security Intelligence Service's interaction with Key's office in 2011 with wrong information which damaged then Labour leader Phil Goff.

Key declared he was cleared by Security Intelligence Inspector-General Cheryl Gwyn's findings. But Key was and is boss of his personal office on the Beehive ninth floor. By not taking any responsibility, by trying to deflect attention to Phil Goff's leak of Gwyn's report and then by denying texting Cameron Slater on Nov 24 – something he could hardly have forgotten, given the trouble Slater caused him during the election campaign – Key gifted Little lots of air.

Heads were down on National's side of the parliamentary chamber and up on Labour's side. A one-day wonder turned into an ongoing problem.

Little used Key's gift to effect with his jaw-jutting, union heavy-style accusations. Labour morale noticeably lifted. Little also heavied State Services Commissioner Iain Rennie over the mishandling of the Roger Sutton's resignation as head of the Canterbury Earthquake Recovery Authority for serious misconduct over sexist behaviour. Note, though, that Little only seeks an apology from Key, calculating that a resignation call carries less weight.

Astute shadow-cabinet-making

Little also got credits in the party for his shadow cabinet.

He stopgapped the deputy slot for a year with "auntie" Annette King, offsetting his parliamentary inexperience. There are three possible replacements next year: Grant Robertson, who wasn't keen in the aftermath of his defeat and who has finance, Carmel Sepuloni, who has personal presence and the big social development portfolio, and Jacinda Ardern, Robertson's running mate.

Ardern was knocked by losses in the election, then the leadership and by demotion to ninth rank. There is a real possibility she might leave politics and build a private life in the private sector. But she is tough underneath and asked for the small business portfolio to make use of work she did in London on Tony Blair's regulatory reform taskforce. If Ardern is fully committed this time next year there is a high probability she will be deputy – with Robertson's backing.

The economics team is also stronger than it looks at first glance. Robertson has key links to think tanks in the United States and Europe, has talked to Michael

Cullen (who is a mate of self-sidelined David Parker) and will follow Cullen's example of burying his head in economics textbooks over the summer. He is determined not to overrate economic models – the measuring stick will be household finances.

David Clark has got economic development. He had three years in the Treasury and so has a grounding in economic thinking.

Parker will focus his trade portfolio on exports. Stuart Nash has a clutch of sectoral portfolios, including energy and a background in business consulting.

Elsewhere in the shadow cabinet Little has achieved his stated aim of balancing experience with opportunity for up-and-comers to prove potential.

The "future of work"

On Dec 1 Little and Robertson will announce a "commission", which Robertson will lead, on what they are calling the "future of work". The premise is that employment is a complex experience in the modern economy, often fragmented, often insecure and, for large numbers, poorly paid.

A starting point for a new realism will be a book of short essays prepared for a conference Robertson attended in Amsterdam in April, "Making Progressive Politics Work".

There will also be an extensive rethink of tax policy.

Little to get round the country

Little intends to try to rebuild Labour's presence in the mortgage belt and in the provinces by extensive travel. This emulates Helen Clark's strategy in 1997-98 as she assembled the makings of the 1999 38% vote, which was off a measly 28% in 1996.

That will diminish Little's parliamentary presence and to some extent his national news presence. But if he succeeds in building local news presence, he will fill in some of the hole in Labour's vote exemplified in Robertson's statement after the election that "we need to be part of the communities we live in".

What does this mean for Hugo members?

It is too early to say how well, or if, this will work. But note two factors. One is that Robertson is enthusiastic about finance and there are the makings of a coherent team focused on modern world issues. The other is that there is not only the will in the caucus to bury factionalism but also a belief that Little (who belongs to no faction), has done a generally skilful and even-handed reconstruction.

So Hugo members should take seriously the possibility of a Labour-led government post-2017 and keep an eye on policy development.

How big a hit has ‘Teflon John’ Key’s reputation taken?

John Key should be politically unassailable at present. He presides over one of the best-performing OECD economies, has won a handy third election victory, and is at the top of his game internationally. From the Xi Jinping and Merkel visits to signing the Korea FTA at the Brisbane G-20 leaders’ meeting, to NZ’s successful bid for the UN Security Council, his mana should be increasing.

Instead, an inexplicably poorly judged response to the damning results of inquiries sparked by Nicky Hager’s ‘Dirty Politics’ book have the PM on the back foot and looking defensive.

The argument among those who see the good and would wish the bad away is that the public “doesn’t care” or expects politics to be grubby. One of the reasons National did so well at the polls was public antipathy to the unloveable figure of Kim Dotcom.

Key’s miscalculation is not to recognise that Cameron Slater/WhaleOil is viewed as equally unsavoury. That Key was happy to make Slater one of those who got his new cellphone number during the election campaign suggests either a massive blind-spot about Slater, or a desire to try to keep him in check.

Something similar kept Key from sacking Judith Collins until too much evidence against her made her position untenable. There were genuine fears that Collins could become a loose cannon if sacked. There may be similar fears in cutting off contact with Slater.

The blogger is quoted in ‘Dirty Politics’ as saying one of the iron rules of politics is “never hug a corpse”. Key kept close to Collins for longer than was politically wise and again to Slater. He is known for intense loyalty to his closest staff, and this is offered as an explanation for his failure to move publicly on Jason Ede when his position also became untenable.

Key will hope that these hits to his credibility are occurring early enough in the new parliamentary term to be background noise by 2017. He may be right, but two crucial factors have changed over the course of this year. Firstly, the political media’s tolerance for Key’s obfuscations is now being sorely tested. The mood in the Press Gallery towards the MP has become more combative. Add to that even a moderately impactful Leader of the Opposition, and the political dynamic could shift swiftly into more negative territory than Key is used to.

The China-NZ Comprehensive Strategic Relationship

The announcement that NZ and China are now

engaged in a mutually beneficial comprehensive strategic relationship may look like not much more than words on a page. However, President Xi Jinping’s announcement of that status upgrade during his three day state visit this month is hugely significant and builds on the so-called “four firsts”, which saw NZ support China’s accession to the WTO, recognition as a market economy, and the commencement and conclusion of the bi-lateral FTA. Notwithstanding the recent NZ-Taiwan FTA, the joint Key/Xi statement is careful to restate NZ’s “adherence” to its one-China policy.

Among numerous announcements during the visit were the establishment of a joint Food Supervisory and Traceability Cooperation Programme and a Television Programmes Co-Production Agreement.

The CSR agreement envisages expanding “practical cooperation in agriculture and animal husbandry, including strengthening understanding and cooperation in the area of product trade, in particular animal product trade, supporting the capability-building of China’s dairy sector” and acknowledges that investment from either country is welcome in the other.

A revamped air services agreement also allows for a doubling of current capacity, with the maximum number of flights between NZ and China increasing from 21 to 42 per week, per country.

NZ Initiative calls for independent budget office

The NZ Initiative economist Bryce Wilkinson has published a paper calling for creation of a new officer of Parliament to allow independent oversight of fiscal policy and to beef up the quality of advice to the finance and expenditure select committee. While NZ led the way on fiscal policy reform with the 1994 Fiscal Responsibility Act, many other OECD countries have since gone further, including adopting specific rules on levels of government spending and revenue as a proportion of GDP. Australia has both such constraints in place. “Guarding the Public Purse” especially emphasises the growing difficulty govts will face in managing fiscal pressures created by an ageing population, given the growth of older voters as a proportion of the total voting pool, and their greater propensity to vote versus younger age groups. **“The population aged 60+ will comprise 37.6% of those eligible to vote in 2053-54, and could account for 50.2% of those actually voting”**. Wilkinson also advocates cutting back transfer payments such as Working for Families, which churn tax revenue and are a consequent barrier to productivity improvements, he argues.

Time for a population policy?

Massey University's Prof Paul Spoonley is trying to reignite debate about a strategic approach to population change to manage issues including regional decline and housing shortages.

Population policies have fallen out of favour, the country last having had such a policy in the 1970's, before the major demographic and migration shifts of the last generation began.

Declining birth rates and the effects of an ageing population signal the end of population growth for almost everywhere except Auckland. This has profound implications for regional economic development, which remains a hardy perennial political concern that may prove intractable, given the trends in regional NZ are consistent with global trends. This makes Auckland NZ's only city of global scale and, from an external perspective, the rest of NZ is no more than a single region.

Spoonley suggests options to increase regional migration should be considered.

However, answers are as likely to emerge from initiatives such as Christchurch's 'Sensing City' project, which aims to use the city's rebuild as a showcase for digital infrastructure enablement. MoU's were signed with two Chinese cities keen to plug into Christchurch's approach to infrastructure maintenance, as well as data management, during the recent Chinese state visit.

Massey's research suggests younger generations are less threatened by migrant populations.

BEPS tax agenda takes shape

IRD has briefed Revenue Minister Todd McClay to expect a public consultation process late next year on two areas where NZ's international tax rules need tightening in response to the OECD's base erosion and profit-shifting (BEPS) initiatives.

An OECD discussion document is due for release later this month on cross-border avoidance of consumption taxes, which has potential to bear on the conduct of international e-commerce. The key areas for domestic law reform identified are the tax treatment of hybrid instruments and of interest deductibility.

Towards the middle of the year, public consultations are anticipated on strengthening the current non-resident withholding tax regime and a review of BEPS compliance measures.

Later in the year, advice is expected on reviewing the tax treatment of foreign trusts.

Meanwhile, McClay suggests the **capital gains**

tax provisions of the existing Income Tax Act are increasingly being enforced with respect to **residential property speculation**.

IRD has assessed more than \$195m of back taxes on property transactions in the last four years, of which \$52.4m was in the year to June. Focus was strongest in the Auckland and Queenstown property markets. Some 26,000 transactions were actively monitored.

Wake-up call on sea level rise

The Parliamentary Commissioner for the Environment's report on the implications for NZ central and local bodies from rising sea levels caused by climate change has been welcomed as a 'wake-up call' by Christchurch mayor Lianne Dalziel.

With changes in seabed levels a factor in the forced abandonment of flood-prone seaside suburbs, Christchurch has experienced first hand what happens when sea levels change quickly.

The report was notable for the wide range of endorsements it received from Local Govt NZ and the Insurance Council as well as environmental NGO's and opposition political parties.

A second report in this series, due next year, will show which towns and cities the PCE judges to be most vulnerable and assess the risk to infrastructure in those areas. LGNZ is seeking bi-partisan political support to establish a nationally agreed approach to an issue that is expected to start having its greatest effect in the second half of the century, when sea levels are predicted to rise globally by around 30cms, sufficient to flood low-lying islands and delta areas.

Diplomatic moves

MFAT needs a new leader following the announced departure of John Allen to head the NZ Racing Board. With UN Security Council responsibilities and after a period of major reform, Wellington insider opinion is that the job will go to a career diplomat, probably already serving in the revamped Ministry's senior leadership group. Top trade negotiator David Walker is cited as a prospect.

Meanwhile, Fiji's return to democracy has seen the reinstatement of a High Commissioner from NZ. The post will be held by MFAT senior diplomat Mark Ramsden, who has been in an acting role in Suva since last year.

Aust-NZ procurement confirmed

The 23 year-old Aust-NZ Govt Procurement Agreement has been reviewed and modernised to bring it up to date with evolving gov't procurement practice. ■

Mid-Dec milk payout call due from Fonterra

The continued decline in prices of dairy products sold on the GlobalDairyTrade platform to a five-year low add to the prospects of Fonterra cutting its forecast milk payout again as soon as its Dec board meeting. An announcement is expected in the second week of this month.

Westland Milk Products, which is particularly exposed to skim milk prices, has cut its forecast for the second time in four months citing global over-supply and saying it still sees the impact of a relatively high kiwi dollar. At a range of \$5 to \$5.40 per kilogram of milk solids, Westland's forecast is in step with Fonterra's, which was cut to \$5.30/kgMS from \$6/kgMS in Sept.

Shareholders at Fonterra's AGM were concerned a revision will push the payout below \$5, although a proposal to suspend new investments until the payout price got back up to \$7 was rejected. Some economists say the forecast could be slashed back to a \$4 range.

ASB has reduced its forecast payout to \$4.70/kgMS. As evidence of the competing needs of Fonterra shareholders and unitholders in the Fonterra Shareholders' Fund, its AGM was characterised by calls to lift Fonterra's dividend given the reduced payout for milk, an input cost for the dairy company.

Year-end fiscal and economic updates

Dec 11 and 16 are the dates for the last two important set piece economic announcements for 2014. The first is the RBNZ's full monetary policy statement, which may contain more clues about how far into the future interest rate hikes may be. In its quarterly predictions this week, NZIER suggested no OCR rise likely until 2016.

On Dec 16 will be the Treasury's half year fiscal and economic update. Both John Key and Bill English have softened up expectations that instead of a small surplus, a small deficit will be forecast. However, English is likely to put the squeeze on spending to ensure the final result is a surplus. The HYEFU is, after all, still only a forecast. A key reason for lower revenue forecasts is the reduced impact of fiscal drag in the persistently low inflation environment currently prevailing.

Yuan in focus as TWI expands

The outlook for the Chinese currency is about to become much more important for NZ exporters and importers because of its introduction into the

reweighted Trade-Weighted Index at the RBNZ's Dec 11 monetary policy statement. The new TWI will include weightings of 17 currencies, many Asian, rather than the five currencies that have traditionally made up the TWI. The yuan is to assume a hefty 19% weighting, from zero currently.

The level of the new TWI-17 will probably be lower than the TWI-5, but is unlikely to have immediate monetary policy implications. Last week's interest rate cut in China raised speculation that the People's Bank of China may be trying to halt the yuan's appreciation. However, over the medium term, that appears unlikely, with China mindful of external criticism of an undervalued yuan and a commitment to eventually allowing a free float.

The TWI weightings will include a metric for trade in services and will be announced on Dec 15, with the new measure in place from Dec 17 and a recalculated series produced back to the July 1984 currency float.

Dry spell starting to bite

Irrigation scheme lobbyists are talking up the potential for an extended period of relatively dry weather in Canterbury to have impacts on agricultural production over the summer and into next year.

Environment Canterbury is expected to issue a Water Shortage Direction in early Dec to restrict consented water takes if feeder lake levels fall to 50% full.

Meridian Energy reports relatively low inflows to its Waitaki storage dams, with lake levels some 55% below the same time last year, in its most recent operating report.

Weather forecasters have recently raised the likelihood of a drought-creating El Nino pattern developing over coming months at around 70%. This is usually associated with drier conditions in the east of the country and more south-westerly winds.

Oil vs dairy – current account implications

Lower oil prices will have some offsetting effect on the slump in dairy prices, which could be exacerbated if drought conditions develop. The annual current deficit is seen widening to around 4.4% of GDP in a year's time from its current level of 2.5% of GDP. ■

Psa action

The Kiwifruit Claim, a coalition of growers and packinghouse Seeka Industries, have lodged their claim for compensation from MPI over the Psa virus outbreak that hit Bay of Plenty growers hard between 2010 and 2013.

The action is deeply resented at a political level, prompting legislated export monopoly Zespri to urge growers against what it sees as an antagonistic try-on by litigation funding firm LPF Litigation Funding.

OPEC vs US shale pushes oil prices closer to US\$60 a barrel

As the most powerful member of OPEC and the best-cushioned with massive national savings, Saudi Arabia appears to hold the whip hand on the current plunge in global oil prices.

Following OPEC's decision last week to keep production levels unchanged, the price of oil has fallen as low as US\$70 a barrel, the lowest since May 2010, with oil prices now having fallen more than a third since mid-year.

International commentary suggests the Saudis are willing to wear short term pain if it means forcing global oil prices closer to the US\$60 a barrel regarded as the benchmark breakeven for US shale oil production.

However, achieving that outcome will have no impact on the fact that developed world growth in demand for oil has been falling since the mid-2000's and demand growth in developing economies has been rising less quickly than anticipated, partly owing to spiking prices in the last decade and govt initiatives to reduce fossil fuel use in response to climate change.

Oil-exporting countries with high dependence on those revenues, such as Russia, Venezuela and Nigeria are seen as being made more vulnerable by an extended period of low oil prices. To the extent this places pressure on the Putin administration in Moscow without tipping Russia into more bellicose actions internationally or unrest domestically, this appears a not unwelcome side benefit of the current oil market dynamic.

The Saudi move represents a fundamental change in global oil market dynamics, as the kingdom moves from a traditional market support role to apparently seeking to push less efficient US shale firms out of production.

China-FTA agreement details

The China-Aust FTA is superior in some respects to NZ's, and negotiations will be required to "modernise" the NZ agreement.

Key elements of the new FTA are:

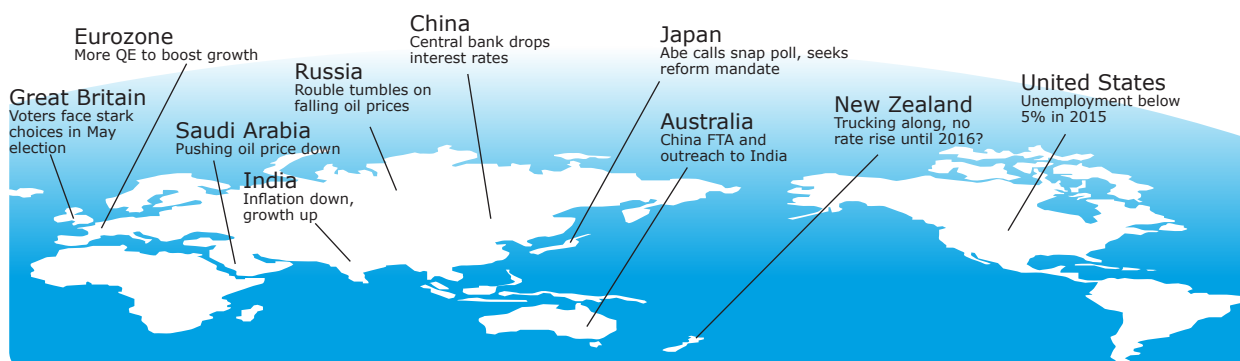
- Improved access for Australian food exports – phased tariff removal on dairy, beef, sheep-meat, wine, horticulture, seafood, hides-skins-leather;
- Discretionary barriers for beef and whole milk powder for Aust exports above an agreed volume;
- Sensitive domestic sectors in China – rice, cotton, sugar – are excluded;
- Tariff removal on coal, alumina and several other mineral ores;
- Improved market access for services, including finance, healthcare, legal, construction and mining;
- Facilitates increased Chinese investment in Aust, increasing FIRB screening threshold for private sector investment projects;

Coalition takes a hammering in Victorian election

Voters in Victoria ousted the state's Liberal Coalition govt in a result seen as a warning shot to federal PM Tony Abbott.

However, the newly incumbent Labor administration of Daniel Andrews will not necessarily have a straightforward time governing. While it appears to have secured 47 seats to gain a clear majority in the state's lower house, a strong showing by a clutch of minor parties, including the Shooters, Sex and Family First parties have denied Labor a state Senate majority. The strong showing by minor parties, with perhaps 3 Senators elected on the Shooters Party ticket, was not predicted, unlike the rejection of the Coalition govt of Denis Napthine.

The world at a glance



Low global inflation – blame the elderly?

Low inflation may hang around for longer and be more structural than is yet widely understood. Ageing populations are increasingly being recognised as a source of reduced inflationary pressure.

Slower population growth combines with an older populace to produce lower demand, negative wealth effects such as less house price inflation, and deflationary consumption patterns, e.g., greater pressure on medical costs but less inflationary pressure on the price of consumer durables.

The prospect of more rapidly ageing and therefore slower growing developed and developing economies – especially China – may have a more profound impact on monetary policy settings and approaches than has previously been acknowledged.

Meanwhile, central banks across the globe continue either to ease monetary policy settings or indicate any tightening bias is remote in the short term.

The Bank of Japan and People's Bank of China have both surprised by further easing policy, and the ECB is creeping towards a full-blown QE policy.

The Fed is still expected to start raising rates by Q3 next year, although on a flatter trajectory than previously expected, while expectations for a 25 basis point cut to the RBA cash rate by mid-year are growing.

The Bank of England may yet hike rates next year, but again, expectations are falling.

Trading partner growth

(2013 actual; 2014-15 Consensus Forecasts; 2016-17 figures Hugo estimates)

Trading partners	Weights %	GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
		2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
China	27.6	7.7	7.4	7.1	7.1	7.3	2.6	2.1	2.4	3.1	2.6
Australia	21.3	2.3	3.1	2.9	3.2	2.9	2.4	2.6	2.4	2.8	2.6
United States	10.1	2.2	2.2	3.0	3.0	2.6	1.5	1.7	1.6	2.2	1.8
Japan	6.9	1.5	1.0	1.3	1.1	1.2	0.4	2.8	1.9	1.8	1.7
Eurozone	7.2	-0.4	0.8	1.1	1.6	0.8	1.3	0.5	0.9	0.9	0.9
United Kingdom	3.7	1.7	3.0	2.6	2.2	2.4	2.6	1.6	1.6	2.4	2.1
South Korea	4.0	3.0	3.5	3.7	3.7	3.5	1.3	1.4	2.0	2.6	1.8
Indonesia	2.3	5.8	5.1	5.4	5.8	5.5	6.4	6.1	6.2	5.1	6.0
Hong Kong	1.7	2.9	2.2	2.8	3.6	2.9	4.3	3.9	3.4	3.3	3.7
Taiwan	2.4	2.1	3.6	3.6	3.6	3.2	0.8	1.4	1.6	1.7	1.4
Singapore	2.6	3.9	3.1	3.6	4.1	3.7	2.4	1.3	1.5	2.3	1.9
Malaysia	2.3	4.7	5.7	5.2	5.3	5.2	2.1	3.2	4.0	3.1	3.1
Philippines	2.0	7.2	6.2	6.2	6.0	6.4	3.0	4.3	3.7	4.1	3.8
Thailand	1.9	2.9	1.1	4.1	4.5	3.2	2.2	2.1	2.2	3.0	2.4
India	1.5	4.7	5.6	6.3	6.4	5.8	9.5	7.3	6.5	6.8	7.5
Vietnam	1.3	5.4	5.6	5.9	6.0	5.7	6.6	4.7	5.7	7.0	6.0
Canada	1.3	2.0	2.3	2.5	2.5	2.3	1.0	1.9	1.7	2.0	1.7
NZ Trading Partners	100.0	3.9	4.1	4.2	4.3	4.1	2.3	2.3	2.3	2.8	2.4
Forecasts for New Zealand											
Consensus		2.8	3.5	3.0	2.6	3.0	1.1	1.4	1.8	2.4	1.7
BNZ Forecasts		2.8	3.8	3.4	1.8	1.1	1.1	1.3	1.3	2.3	2.3
The World		2.6	2.7	3.1	3.2	3.0	2.8	3.1	3.1	3.6	3.2

Taking China's pulse

Wellington fund manager Harbour Asset Management reports from a research tour in China that a slowdown in the national growth rate from around 7% p.a. at present to closer to 6% is now widely expected.

Investor and consumer sentiment was notably less buoyant than 12 months ago, although the impacts of policy changes to encourage more domestic consumption and rely less on growth from heavy industry is evident.

Anti-corruption measures have had a major impact on the luxury goods market, including for high end apartments, which developers had over-built anyway. Prospects for low to mid-range dwellings appear strong, reflecting ongoing urban drift and a surge in demand for replacement housing.

Another major impact of the anti-corruption drive is a reportedly marked improvement in the cost base for basic materials companies and metal refiners. Cost cuts of up to 30% were reported among producers no longer facing the range of unsanctioned "fees and levies" routinely charged by local authorities.

Harbour also picked up **an important revision in Fonterra's expectations of growth in demand for foreign-sourced dairy products.**

Whereas the Fonterra Shareholders Fund prospectus anticipated 7% demand growth by 2020 outstripping domestic supply growth of 3%, it has cut demand growth to 4% annually. ■

ECONOMIC ROUND-UP

Experts in short supply

The Environmental Protection Authority says there's a supply shortage of non-aligned experts in NZ, with many linked professionally to either industry or advocacy groups. In its briefing to the incoming environment minister Nick Smith, the EPA said it may need to move to permanent 'commissioners' like the Commerce Commission. The board of inquiry into Chatham Rock Phosphate's application to mine phosphate on the Chatham Rise is due to issue a decision on Dec 18. Trans Tasman Resources is revising its appeal after being turned down for a seabed ironsand mining project. The EPA told Smith it was "increasingly difficult to identify decision makers who are free from current or past relationships that could be challenged by parties for potential bias or conflict of interest." At the same time, environmental decisions are becoming "more contentious and complex."

IPO Pipeline

Investor appetite for share issues remains strong. Orion Health Group, which sells patient management software for hospitals, rose almost 18% in its NZX debut after an IPO that raised \$120m of new capital and was priced at the top of its indicative price range of \$4.30-\$5.70 a share. Arvida Group reached its target of raising \$75m in an IPO at 95 cents a share, near the top of the 85 cents to \$1 indicative price range. The retirement village operator will join listed rivals that have enjoyed strong support from equity investors, such as the perennially profitable Ryman Healthcare. Currently underway is Evolve Education Group's offer of new shares that will trade on the NZX and ASX raising \$132m to acquire childcare businesses. Less certain is an IPO by NZME, which holds the NZ media assets of APN News & Media, including the NZ Herald, The Radio Network and GrabOne. APN took a \$54m impairment against its NZ newspaper mastheads and forecast a 5.1% decline in 2015 earnings for NZME.

Free trade deals

NZ and South Korea have concluded a free-trade agreement that's been five years in the making and will initially eliminate tariffs on 48% of current NZ exports, with most others to be phased out over 15 years. A trade deal initially met resistance from Korea's own primary sector. Tariffs slated for elimination include a 45% rate on kiwifruit, 22.5% on sheep meat, 40% on beef and an 89% tariff on butter. Yet the FTA didn't extend to milk powder – a sticking point for all countries negotiating trade with Korea. Wood Council of NZ is disappointed

tariffs for processed wood products, at 10%, won't be eliminated for 10 years while other countries are able to export to Korea tariff-free. Seafood NZ is also grumbling that the FTA excludes frozen squid, which has a 22% levy imposed at the Korean border. There's also a cap on exports of frozen mussels on the half shell of 1600 tonnes a year, above which a 20% tariff applies. China competes in that market and bears no such tariff. Meanwhile, Simon Power, the newly appointed chair of the NZ-US Council, says it will be a challenge to conclude the Trans-Pacific Partnership free trade agreement next year. Power says a date hasn't been set yet for the next round of negotiations or the next meeting of ministers and if the talks stall for too long, the US will become distracted by the 2016 presidential elections.

Innovation

Callaghan Innovation says it will be at least another year before it completes the business case assessing whether and how to develop an innovation hub at the old Industrial Research Ltd site at Gracefield, on the edge of Petone in Wellington's Hutt Valley.

Minor cosmetic upgrades are continuing and space is being hired on the campus in an opportunistic fashion, ahead of a decision for which political as well as policy dynamics are in play. Innovation precincts are under development in both Auckland and Christchurch and there is support for a similar facility in Wellington. Part of the problem may be that while the facility is adequately equipped and zoned for a cluster of businesses seeking to commercialise innovation, the location itself is unappealing, compared to CBD locations in the other two main centres.

Film Industry

NZ's film industry is expecting a bumper year and NZ Film Commission chief executive Dave Gibson says improved government incentives have contributed. They include the NZ Screen Production Grant, created last year by combining the gov't's Large Budget Screen Production Grant and Screen Production Incentive Fund, which offers a 20% rebate and an extra 5% for productions that meet special criteria. "All I can say is hold onto your hats, because next year is going to be a big one," Gibson said. As well as the 'Avatar' sequels, the local industry has managed to lure projects including 'Crouching Tiger, Hidden Dragon', 'Light Between Oceans', and the TV production 'Thunderbirds'.

Railway Link

Support for reinstating the storm-damaged Napier-to-Gisborne railway line will be tested by the

Hawke's Bay Regional Council. It has effectively taken up an option from KiwiRail to resurrect the unprofitable route, subject to an economic analysis. Local businesses have lobbied for the line to be re-opened, with one argument being that it would future-proof transport links in the region. KiwiRail mothballed the line in Dec 2012 after storm damage it estimated would have cost \$4m to repair. At the time it said ongoing maintenance costs would have mounted up to a further \$6m a year. It has agreed to lease the route to the council, which has until March 1 next year to respond.

Migration

NZ's annual migration was at a record for a third straight month in Oct, with the surge of net arrivals amounting to an influx that's bigger than the Reserve Bank was predicting. The net 47,684 migrants in the year ended Oct 31 was the biggest ever gain, according to Statistics NZ. Key contributors to the annual increase were a 64% jump in Indian arrivals to 10,722, with students a big part of the total, and the 22,721 migrants from Aust, which included many NZers returning home. The inflow hasn't yet stoked inflation as economic theory would suggest, which may reflect the composition of the flows, with the exodus across the Tasman reversing and younger people arriving on temporary working visas.

Horticulture

Scales Corp, which listed in July after a \$148m initial public offering, says it may beat prospectus guidance for annual profit. Only \$30m of the IPO proceeds was new capital as private equity firm Direct Capital sold down its stake. The fruit and vegetables logistics group lifted profit by 50% to \$20.4m in calendar 2013, on the back of rising Asian demand for apples. It forecast net profit to fall to \$15.9m in 2014, and to recover to \$20.8m in 2015.

Retirement Villages

Ryman Healthcare chief executive Simon Challies has described "30 years of extraordinary demographic growth ahead" as the proportion of longer-lived retirees grows. He made the comments to investors after NZ's largest listed retirement village company posted a 13% gain in first-half earnings and said it was on track to achieve 15% growth in the full year. It added a record 450 beds and units in the first half of this financial year and says it is on track to reach about 900 units for the full year, ahead of its annual run rate of 700. It wants to replicate its success in Aust, building a land bank in Melbourne, where it has opened its first village.

Registered Banks

Bank of China has become the 25th lender to gain a licence from the Reserve Bank for its BOC (NZ) unit, which will change its name to Bank of China (NZ). It will be the third of the major Chinese banks to gain a NZ licence after China Construction Bank and Industrial and Commercial Bank of China. Bank of China's clients include COSCO, Bright Dairy, Huawei and Haier Group, which all do business in NZ, and counts former finance minister Ruth Richardson as a director. Former National Party minister Chris Tremain is chairman of the local unit.

Retailing

Christmas is looming large for retailers hoping for a bumper season after a year of tough trading. Warehouse Group has reiterated it expects annual sales growth but said sales lag behind forecast heading into the key Christmas trading period. Kathmandu Holdings has said it expects first-half margins to shrink as it increases discounting. Performance in the first half is "highly dependent on the more significant Christmas trading period from now to 31 January." Pumpkin Patch is in a more dire position, telling shareholders it is at risk of breaching bank covenants if Christmas sales disappoint and announcing it has hired investment bank Goldman Sachs to review its capital structure. The shares have tumbled on concern it may opt for a discounted rights issue to strengthen its balance sheet.

Supermarket probe

The Commerce Commission inquiry has cleared Countdown supermarkets of anti-competitive behaviour while issuing a general warning to supermarket operators to take care in communications with suppliers and to remember talks with competitors "carry significant risks for all involved." The outcome is satisfactory for Countdown owner Progressive Enterprises, which had endured strident accusations from former Labour MP Shane Jones under the protection of parliament, including tactics that amounted to "corruption, racketeering and blackmail". His position was stoked by suppliers, who typically get squeezed by NZ's supermarket duopoly, after a change of strategy at Countdown to resist price increases while "making greater use of its sales and margin data to assess supplier performance." The commission did find Countdown's communications with suppliers were ambiguous. No evidence was found of collusion with the Foodstuffs group that operators the New World and Pak'n'Save

ECONOMY AT A GLANCE

New Zealand economy

(% change on previous year)
Calendar year except where indicated)

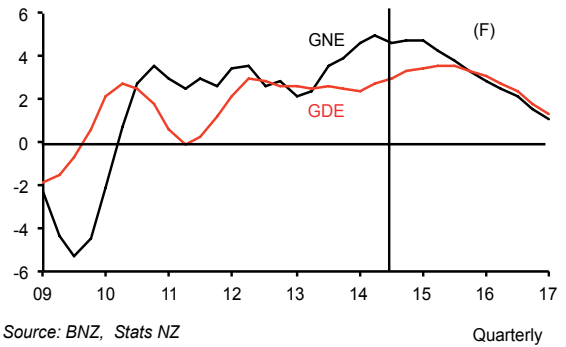
	2013A	2014F	2015F	2016F	2017F
GDP components					
Consumption	2.8	3.1	3.1	1.4	0.9
Investment	9.7	10.0	6.3	2.3	0.7
Stocks (contribution to growth)	-0.1	0.6	-0.5	-0.1	0.0
GNE	4.0	4.8	3.4	1.5	0.9
Exports	1.3	3.3	3.3	4.0	3.8
Imports	6.3	7.8	3.5	2.9	2.7
Activity					
Real GDP (production)	2.8	3.8	3.4	1.8	1.1
Output Gap	0.4	1.2	1.7	0.2	-0.4
Labour productivity growth	0.6	0.3	0.3	0.1	0.2
Employment growth (annual % change)	3.0	3.1	2.7	1.3	0.8
Unemployment rate (S.A. % as at Dec Q)	6.0	5.4	5.4	5.9	6.2
Inflation (% increase from Dec Q previous year)					
Consumer prices	1.6	0.9	1.7	2.6	2.2
Average hourly earnings	3.2	3.4	3.6	3.2	2.7
Terms of trade	20.2	-3.8	2.7	3.4	1.1
Financial sector					
Operating balance (OBEGAL)					
(as % of GDP – June Year)	-2.1	-1.1	0.1	0.3	0.7
Net debt (as % of GDP – June)	26.2	25.9	26.8	26.7	25.8
90 day bank bill (%) (1)	2.7	3.7	4.2	4.5	4.4
5 yr NZGS yield (%) (1)	4.2	3.9	4.5	4.6	4.2
10 yr NZGS yield (%) (1)	4.8	4.3	4.9	5.1	4.6
External sector					
\$NZ/\$US(1)	0.823	0.760	0.700	0.660	0.647
\$NZ/\$A(1)	0.915	0.884	0.864	0.846	0.894
\$NZ/Y(1)	85.1	87.4	86.1	82.5	77.7
TWI(1)	77.5	75.8	73.3	70.3	68.7
Trade balance \$(m)	1207	1674	-88	2982	5135
Current account \$(m)	-7350	-8042	-10165	-7702	-6005
(as % of GDP)	-3.3	-3.5	-4.2	-3.0	-2.3

(1) Average for month of December

(2) Using current prices

Economic growth

Annual average % change



Retail sales

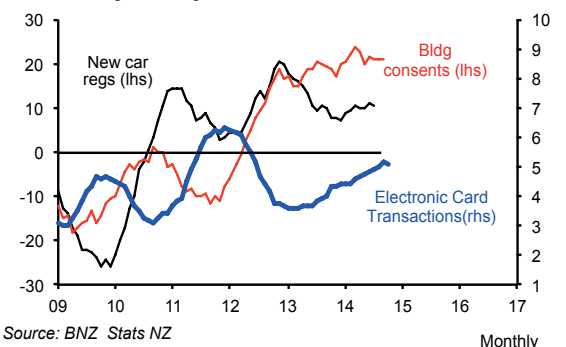
Annual average % change



Partial indicators

Annual average % change

Annual average % change



The labour market

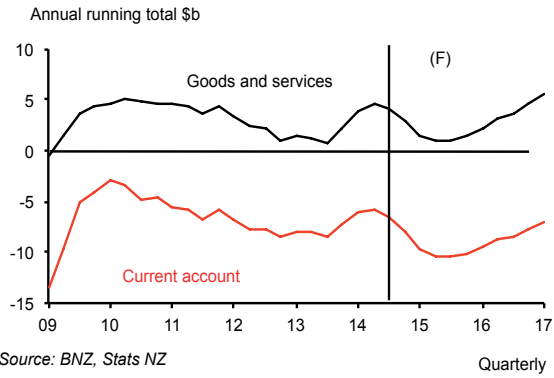
Annual % change

%

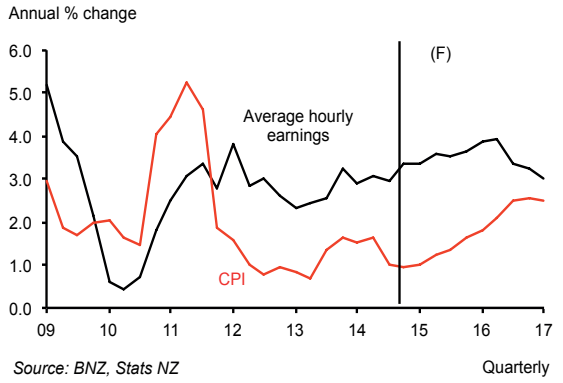


ECONOMY AT A GLANCE

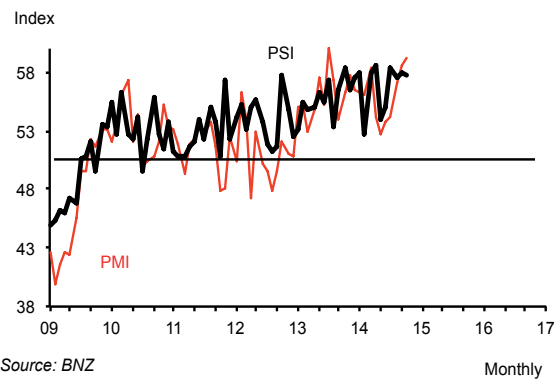
Balance of payments



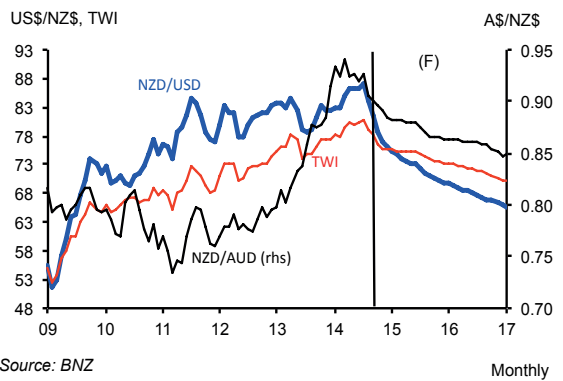
Inflation



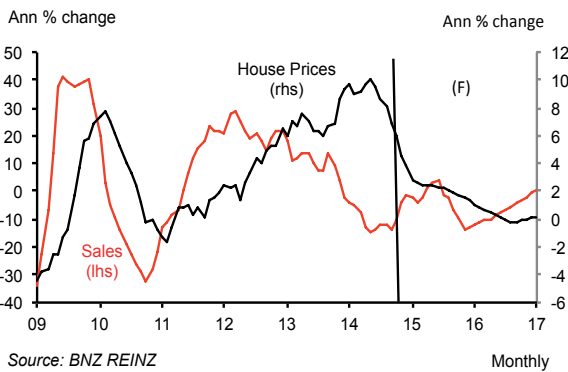
PSI and PMI



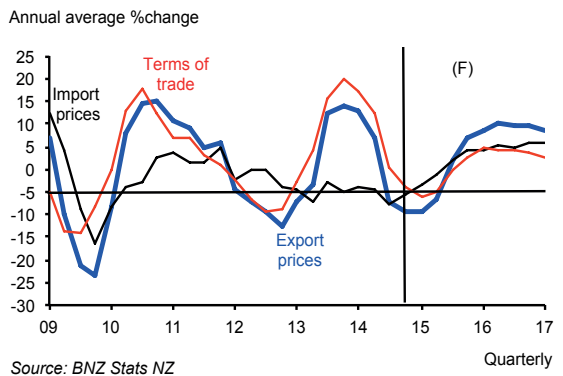
Exchange rates



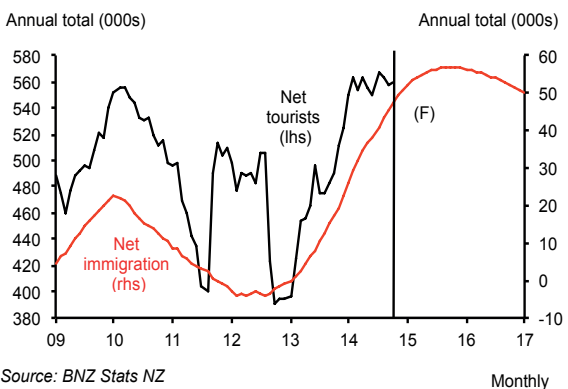
Housing market (three month average)



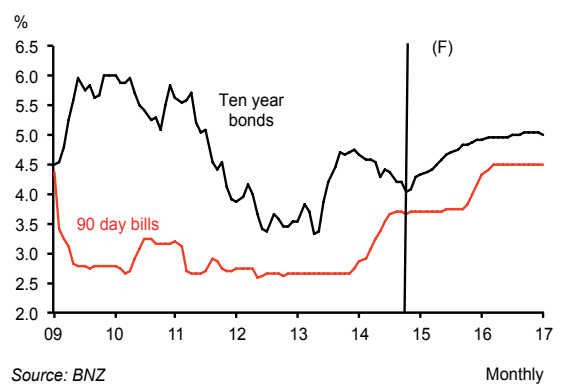
Terms of trade



Net migration flows



Interest rates



ECONOMIC ROUND-UP

Continued from p9

supermarkets. The NZ Food & Grocery Council had also complained of Countdown's tactics and stood by its position after the regulator's report, angering Progressive Enterprises managing director Dave Chambers.

Primary Healthcare

Green Cross Health, formerly known as PharmacyBrands, has continued its run of acquisitions, agreeing to pay about \$18m for Access Homehealth, a not-for-profit home healthcare services company owned by Rural Women NZ, which will gain representation on the Green Cross board as part of the deal. Access has annual sales of about \$85m and will add to earnings immediately, the company said. Green Cross acquired medical centre operator Peak Primary in October and bought a 50% share of Total Care Health Services in March, its first expansion into community healthcare. Chairman Peter Merton said the company aims to be a leading provider of primary health services in NZ.

Corruption Perceptions Index

Transparency International's 2014 Corruption Perceptions Index continues to place NZ among Nordic countries as the world's least corrupt. NZ was first equal in 2013 with Finland but has slipped to second, behind Denmark, in the 2014 version.

NZ's two largest trading partners, Aust and China, rank 11th and 100th respectively. The latest index is based on surveys taken prior to the 'Dirty Politics' saga. It is judged unlikely to dent NZ's very strong global reputation significantly, given the high degree of transparency afforded the issues and their relative insignificance in commercial, economic and socio-political terms by comparison with corruption in many other countries.

Corporate awards

The Deloitte Top 200 Awards are entrenching their position as one of the top tier annual business accolades. Winners in the 2014 awards, which included several **Hugo** members were: Tourism Holdings (most improved performance); **Delegat Group**, (best growth strategy); **Fletcher Building**

(governance excellence); **Bank of New Zealand** (diversity); and **Air New Zealand**, which took the top honour of company of the year.

Executive of the year was Simon Challies, ceo at Ryman Healthcare group, while Tony Carter from the Air NZ and Fisher & Paykel Healthcare boards was named chairman of the year.

Electricity

Electricity prices paid by commercial and industrial consumers are expected to fall a further 4% in FY2015 before staging a tepid recovery in 2016, according to research from Deutsche Craigs.

C&I pricing fell 8% in FY14, with net margin falling from \$103 per Megawatt hour in FY13 to \$90/MWh forecast in FY15.

With less use of thermal plant, there also appears to be a shift in buyer behaviour occurring, with demand for fixed price contracts on the up.

Deutsche estimates the generator-retailer profit pool has increased by about 4% in the first quarter of FY15, compared to the same period last year.

The firm expects stiff competition to continue in retail electricity, where the margin spread vs C&I prices has grown from \$5/MWh in 2013 to \$18/MWh at present, which Craigs believes is unsustainable.

Venture Investment Fund

11 years since its establishment the govt-back NZ Venture Investment Fund's \$260m VC Fund has returned just \$1.33 for every dollar invested by the taxpayer, the fund's first long term performance report says. Of that, 21 cents is cash returned and \$1.12 in unrealised portfolio value.

However, that performance is significantly affected by the under-performance of investments made between 2003 and 2005, which suffered during the global financial crisis.

Some \$55 million invested between 2007 and 2012 has performed better, delivering a return of \$2.11 for every dollar invested, 15 cents as cash returned and \$1.96 in unrealised value. Public-listed companies, including Xero and Orion Health, make up 40% of the value of the unrealised portfolio. ■