HUGOvision

Assessing the economic and political environment in New Zealand

1 February 2014 | Confidential to HUGO members

A synchronised, cyclical global recovery... Pages 6&7

After five years of hard slog since the global financial crisis, developed world economies are experiencing a sometimes tentative but nonetheless synchronised, cyclical recovery. Just in time, as developing economies hit rough patches.

"Rock star" economy to shine bright, but briefly? Page 6

No one disputes this will be one of the strongest years for the New Zealand economy in at least a decade, but how long will it last, and has most of the good news already been priced in? Interest rates will rise sooner rather than later.

National's dilemma – finding mates Pages 2&3

Despite the rosy economic conditions and strong business and consumer sentiment, the governing National Party still faces a troublesome task stitching together support partners after the 2014 election. Meanwhile, Labour stumbles on the detail as it opens the bidding with a $60 a week baby bonus, pitched as investment in the "best start" in life.

Are the rich really getting richer in NZ? Page 4

The 2014 election will be fought, in part, on the charge that New Zealand society is becoming steadily more unequal. It's a good line for an Opposition party, and one that's widely believed. The data, however, is more nuanced than that.

Electricity politics heating up again Page 4

The Electricity Authority has produced credible, peer-reviewed analysis to show that New Zealanders have never paid the historic cost of electricity assets in their power bills. A powerful business lobby will chime in soon too. But does opposition to the popular Labour-Greens policy stand a chance?

Time to redesign the competition test Page 5

The Productivity Commission is backing the Commerce Commission's call for a revamp of the Section 36 competition test. Its new report on service sector productivity has provocative findings on New Zealand firms' appetite for efficiency-enhancing ICT investment.

Business and economic round-up Page 8

A new feature of Hugovision highlighting the corporate, economic, and statistical news of significance. In this edition: first results from the "summer of oil"; the significance of Air NZ's new code-share; first outings for seabed miners and EEZ regulators alike; cartel prosecutions in the building industry; Telecom's big 4-G spectrum spend.

Forecasts at a glance

	INFLATION	GROWTH	$ v $US	$ v $A	WORLD GROWTH	TRADING PARTNERS
December 2014	2.4%	3.9%	77.0%	91.7%	3.1%	3.7%
December 2015	2.9%	2.3%	69.9%	87.4%	3.3%	3.8%
December 2016	2.8%	2.2%	65.9%	86.3%	3.3%	3.9%

Text finalised 30 January

Core government policy driver is to embed fiscal responsibility

John Key on 23 January dolloped out some money to spread top principals' and teachers' skills around schools and classrooms. But such initiatives are tested against a cast-iron determination, centred on Bill English, to stay on track fiscally. Key said in his Parliament opening 28 January: "The Government's first priority is to responsibly manage its finances."

Read any recent English speech or interview transcript and there is a constant message: don't relax, the global economy is still not settled, there could be another shock and that requires resilience which in the government's case is a fiscal buffer. So his colleagues are not to get big spending ideas for this budget or any over the next few years. Expect him to bring forward the resumption of contributions to New Zealand Superannuation to squirrel money away along with paying down debt.

David Parker has taken this on board for Labour. He, like English, comes from the Otago-Southland region that used to be dominated by Presbyterians. Some of Parker's colleagues complain that he is keeping a rein on their plans to remake society. The point was underlined when David Cunliffe reiterated ahead of his 27 January speech that two tax breaks – a tax-free zone for under-$5000 income and removal of GST on fresh fruit and vegetables – were being dumped. (They were misconceived in any case.)

Fiscal responsibility will be a campaign jousting ground in any case: Steven Joyce attacked Labour's "best-start" programme as profligate. The core of National's campaign will be that it is the more responsible economic manager.

Key at Parliament: a revised growth agenda to come

John Key's second point on Parliament's opening was that the six-point growth agenda will be refreshed in the first half of this year. Other points:

- The TPP is top trade priority, followed by: investment in food safety (post-botulism), coupled with "look[ing] to establish a centre for food safety science and research"; implementation of the joint border management system; a review of customs and excise legislation; and seven more air services negotiations.
- Workplace deregulation legislation will continue plus legislation to refocus industry training organisations on standard-setting and arranging training and to strengthen quality assurance. There is to be a new tertiary education strategy. There will be online immigration applications and quicker, electronic processing of visas. Later, Key said the government might extend parental leave.
- Resource Management Act reform will continue (but there is not a majority for reform of sections 6 and 7).
- Modest innovation investment will continue.
- Key's 23 January **education initiative** appealed to teachers: more money for some. Top-performing principals and teachers will be paid to mentor others or to stay in the classroom where they are most useful instead of going into administration.

This has limited promise. New Zealand Initiative researcher Rose Patterson (who will be at the Hugo-Deloitte CEO Retreat 21-23 March) said more value would lie in building up teaching as a high-status profession and raising entry standards.

It doesn't deal, as Labour and some teachers noted, with children who have poor initial cognitive development and nutritional and psychological handicaps from a substandard early upbringing.

Labour's big point: "invest" in the first three years of life

David Cunliffe did pick up on the need for children to be learning-ready if schools are to make the best of them. He resuscitated Annette King's 2010 children-first policy line, subsequently developed by Jacinda Ardern but left on the back burner by David Shearer. He renamed it Best Start.

This involves a 1940s-50s-style $60-a-week child benefit for the first year for under-$150,000 households (three years for low-middle-income families), with other assistance for children deemed in poverty, plus monitoring and mentoring pregnant women, monitoring them and the children after birth and wrapping help around those not giving the children a good start and extending early childhood education, especially for poor children.

There is now a heap of evidence, including Sir Peter Gluckman's epigenetic research and the 40-year Otago University cohort study, that such intervention, if done effectively, gives a far bigger return on "investment" than trying to fix children up later: work-ready teenagers instead of benefit-and-crime-ready ones.

Will that win Labour votes? Some. But it is up against the promise of more jobs and higher wages from National's economy.

Labour's not-so-secret weapon

More promising for Labour is its adoption of **United States statistical and targeting techniques** to get Labour-leaners who did not vote in 2008 and 2011 to vote in 2014. The techniques were used to telling effect by Barack Obama's campaigns in 2008 and 2012.

The statistical work has been done. The job ahead of Labour is to hone the messages (which need to be highly segmented) and then get enough people on phones and in the streets to contact the targets.

National's un-secret weapon

Where Labour has a long-run advantage is in a stronger 30s-45s cohort in its caucus: it will by 2017 look more like a party of the future than National.

John Key, backed by president Peter Goodfellow, has quietly nudged a swag of MPs into retirement. In addition, one has been ousted by a challenger and another either will go voluntarily or be challenged, almost certainly successfully.

This opens up opportunity for the party to select at least some younger candidates to add to Simon Bridges, Nikki Kaye and Jami-Lee Ross and thereby give the party a forward-looking image for 2017.

National's not-at-all secret election problem: partners

The chart below reflects the firm economy, strong business and consumer confidence, falling unemployment and slightly rising wages. Far more people say New Zealand is on the right track than on the wrong track (130 on Morgan's poll, where 100 is neutral and similar on the UMR poll). That is usually government re-election territory. The only obvious cloud is rising interest rates but they will not bite much before election day; the other possible cloud is Bill English's worry, a global shock.

That puts National in the 45%-46% band. But that is at most marginally better than Labour-plus-Greens. If that is how the election goes, the result hangs on who wins the minor party bidding.

John Key has made it clear he wants ACT back in Epsom and Peter Dunne back in Ohariu. The Ohariu ploy might – but only might – work. The ACT ploy has brightened with John Banks going but depends on National loyalists again indulging ACT which will on 2 February choose its candidate from former MP John Boscawen, New Zealand-born former British academic Jamie Whyte, who wowed the 2013 conference and has returned here to live, and personable young David Seymour, who has been think-tanking in Canada and wowed an earlier conference.

But even if both ploys work, that adds only one net seat to National's side because National would have got one more party vote quota if both flopped.

So look to the Maori party?

Te Ururoa Flavell has now said in words of one syllable what he has in effect been saying in his press statements for two years: that he is closer to Labour than National. At the Ratana show he officially shifted the Maori party into neutral territory. But he, too, may be a one-man band.

Colin Craig to the rescue?

John Key has been explicit about working with Colin Craig and his Conservatives and there is no doubt National could handle the policy differences. The problem is getting Craig a seat because he is most unlikely to get 5%. The most promising option is East Coast Bays, which has a high proportion of Craig's sort of conservatives. But that would require Murray McCully to go on the list (that is, signal retirement in 2017).

So, on to Winston Peters?

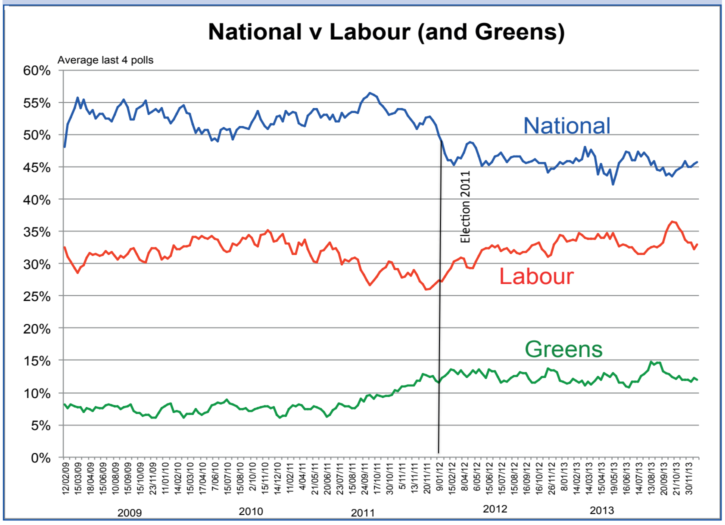
Winston Peters deeply resents John Key's slagging of him in 2008. But a backdoor route was found to open talks on the spy bill and a similar route might be possible post-election. One theory: offer a high ministerial office and a knighthood and top diplomatic post to follow. Far-fetched? Not too far. Peters wants respectability, was once in National and doesn't like the Greens.

And what about Dotcom?

Wait and see with Kim Dotcom's Pirates. The main appeal would be to younger, anarchic or random voters, many of whom don't vote, so 5% is highly unlikely – on the evidence so far. Any net damage would be marginally to the Labour-Green vote.

National=Labour+Greens

Through 2013 Labour+Greens (year average 45.9%) matched National (year average 45.5%). They finished the year with November-December four-poll averages of 44.9% and 45.8%. Among the small parties New Zealand First averaged 4.0% for the year and 4.0% for the last four polls and the Conservatives 1.6% and 2.2%.



POLITICS AND POLICY

Increasing inequality in NZ: who's right?

Rising inequality is one of the defining issues for both this year's general election and in global politics: witness the focus on inequality at the World Economic Forum in Davos, just completed.

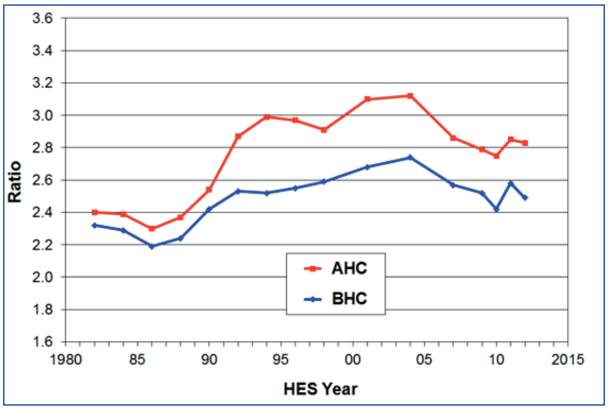
But how true is it in New Zealand? Finance Minister Bill English has been touting an alternative view to Press Gallery journalists, based on what he describes as "the definitive work on incomes, inequality and poverty in NZ", which is reported in the Ministry of Social Development's "Household Incomes in NZ" report.

It shows a more nuanced and less unequal picture than is widely claimed. If anything, there has been a decline in inequality since the late 1990's, with no apparent reversal despite the global financial crisis and NZ's late 2000's domestic recession.

It appears much of that fall can be sheeted home to the Working for Families tax top-up initiative, which Labour introduced in 2004 and which National has retained.

A graph plotting the ratio of income inequality between the highest and lowest 20 percent of households shows it peaked on an "after-housing costs" basis at around 3.1 times in 2005, and then dropped to a low of just under 2.8 in 2010, where it roughly remains.

However, the story of the last 14 years masks the source of the charge that New Zealand has become much more unequal in the course of the last generation.



In the early 1980's, the inequality ratio between the wealthiest and poorest households stood at 2.4. It climbed through the late 1980's and shot up in the 1990's, with a dip around the 1998 recession, before rising again through the early 2000's.

That steep upward climb in the 1990's took New Zealand above the OECD average for household income inequality. The gap has only started to close recently as inequality has started to grow again in other OECD countries.

Fightback looming on Labour-Greens' power policy

This week's release by the Electricity Authority of analysis showing consumers have never paid the historic cost of electricity supply in the last 30-plus years will soon have company.

Whether or not the EA is aware of it, Business NZ's Major Companies Group is also about to release new analysis attacking the Labour and Green parties' central buyer policy for electricity.

The architect of Labour's policy, David Parker, has reaffirmed the party's determination to pursue the policy, which has popular appeal. Early public reaction to the EA's publication suggests there's little willingness to hear rational argument on an issue where many reached entrenched, negative conclusions years ago.

While David Cunliffe has told business leaders his door is open to discuss concerns over the policy, and Parker has been at pains to stress the approach on electricity won't be heading into other regulated industries, a complete reversal looks unlikely.

The EA study assesses historic costs against prices paid by electricity consumers and concludes, based on a pre-tax 10% WACC recommended in peer review by NZIER, that the full historic costs of electricity supply have never been met by consumers in the last 30 years.

Under-recovery was most dramatic among residential customers in the early 1980's, but reforms from the mid-1980's onwards saw that advantage eroded to the point where commercial and industrial consumers are now comparatively advantaged.

Higher costs to serve residential customers may justify this, although the analysis suggests greater retail competitiveness might even the playing field more, and that MBIE may not be fully capturing the impact of hard-to-measure price discounting by retailers as they seek to gain or save customers.

EA's next step on transmission pricing

The long-running attempt to find a new way to calculate and apportion the costs of electricity transmission has taken another step forward, with the Electricity Authority issuing a new consultation paper outlining three possible approaches to the "beneficiary-pays" approach, which it continues to prefer over alternatives.

The first iteration, released in October 2012, caused consternation amongst most generators and major electricity users, who feared both the costs and complexity of the proposed process would create for sharing transmission costs on a fairer basis than at present, which favours North Island over South Island generators.

For example, analysts forecast the annual impact of the original proposals on Mighty River Power could have been in the order of $65 million a year once the total costs of the current round of Transpower upgrades was complete. The upgrades mean the transmission component of electricity costs can be expected to rise by around 80% in the next decade.

Early reaction to the latest discussion paper, which was subject of a one day conference in Wellington this week, suggests it may have struck a more acceptable balance.

The three scheduling, pricing and despatch (SPD) proposals now under consideration are:

- A "simplified SPD" to address concerns about the complexity of the original proposals;
- A beneficiary-pays approach based on the existing Grid Investment Test;
- A zone-based approach to beneficiary-pays

S36 competition test reform on the cards

The Productivity Commission has weighed in behind the Commerce Commission in recommending reform of the Section 36 competition test. Both argue the courts have entrenched a "counter-factual" test, which is producing "idiosyncratic" outcomes, while failing either to ensure that big players' anti-competitive behaviour is adequately constrained, or that the potential for desirable economies of scale are achieved. In other words, the current regime is delivering the worst of both worlds. They recommend instead either an effects-based test or a move away from a single conterfactual test for abuse of monopoly power, regardless of the case. Investment in market studies to inform both competition decisions and policy development are also recommended. The Greens agree and Canberra is reviesing Australian settings. Change looks possible.

Shift in tax avoidance interpretation overstated?

A 53 page commentary from Justice Susan Glazebrook, reflecting on the Supreme Court's approach to interpretation of tax avoidance, in light of the string of successful actions taken by the Inland Revenue Department in the last five years.

Many in the profession argue the New Zealand courts have substantially shifted their ground on interpretation of the anti-avoidance provisions, particularly in the shift from the previous focus on the "scheme and purpose" of an arrangement to concentration on whether an arrangement was consistent with "parliamentary intention".

Justice Glazebrook's view is that less has changed than is commonly argued, albeit the Supreme Court has adopted a formal two-step process for examining alleged instances of avoidance. Rather, "tax avoidance jurisprudence had become somewhat confused" before a new clarity began to emerge out of the landmark Ben Nevis and Glenharrow forestry-based avoidance schemes.

"There is nothing revolutionary in the principles expressed by the majority in Ben Nevis," she writes. "The majority applied established statutory interpretation techniques to establish the proper scope of the anti-avoidance provision, as the courts are required to do whenever Parliament chooses to legislate in general terms." The paper is at: http://www.courtsofnz.govt.nz/speechpapers/23-December-2013_-_Justice-Susan-Glazebrook_-_Accountants-Society-Paper.pdf.

Is all the good news priced in?

There is no doubt in any economic forecaster's mind that New Zealand will have a strong 2014, pushed along in particular by the expectation that much of the Christchurch rebuild impulse will flow through in the next 12 months.

However, that is a temporary impulse and, in effect, a replacement of capital assets lost in the 2010 and 2011 quakes. It won't be repeated, so this year's likely 4%-plus growth rate will sink back to around 2.5% p.a. in following years, and BNZ economists warn either 2015 or 2016 could be a much weaker year.

That's one of the main reasons the bank is forecasting a drop in the value of the kiwi dollar against the Australian and US dollars in future years, reflecting the likelihood that at least some of the key drivers of current optimism can be expected to fade.

In particular, a continuation in a 40 year high for the terms of trade, driven largely by dairy prices, is unlikely, even if it can't be discounted. The current global recovery is cyclical rather than long term sustainable. Strong net inward migration might also be expected to abate in the event of a weaker local economy prompting a reversal in current falling long term departure trends.

While high house prices may be here to stay, BNZ is also uncertain that they will continue to rise as aggressively in future years as they have recently, given efforts to meet supply gaps and the RBNZ's focus on limiting banks' ability to lend as freely to first-home buyers as in the past.

That all suggests that while the NZ economy may live up to its "rock star" billing this year, it will be more like business as usual in 2015 and beyond, with high external imbalances and sluggish productivity growth continuing to dog the long-sought uplift in sustainable growth rates.

Irrespective of the pace at which it occurs, interest rates are on the rise this year too, with analysts factoring in a rise in mortgage interest rates of around 2 percentage points by September 2015.

One of the key issues for employers this year will be a tightening labour market, and resulting wage pressure. As we enter the first real monetary policy tightening in a decade since the one that began in January 2004, wage earners facing high debt servicing costs and a wider range of job choices will be looking for larger pay increases after five years of relative restraint.

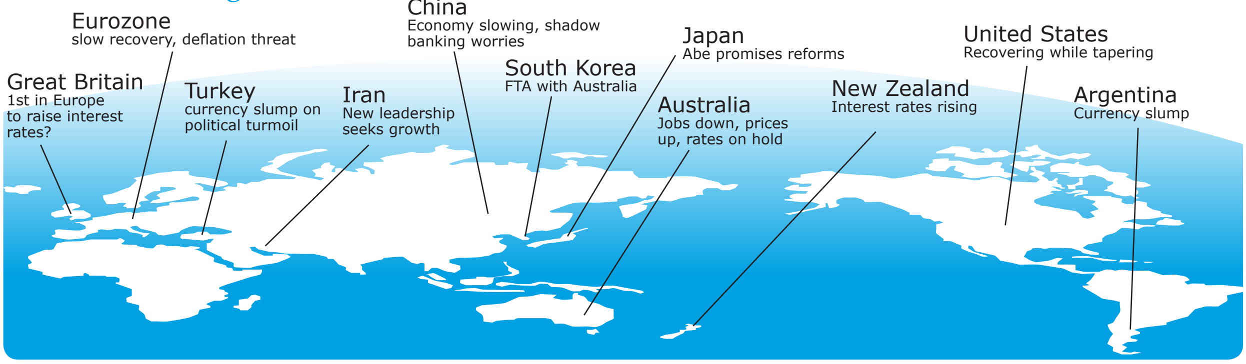
Exporters to Australia, still the largest market for high value services and manufactured goods, can expect little short term relief from the strong ramp-up in the kiwi versus the Australian dollar. The BNZ argues the current strength, at around A94 cents to the $NZ1 is unjustified on economic fundametnals – Australia's terms of trade improved by twice as much as New Zealand's over the last decade, yet the two exchange rates sit at much the same relativity as 10 years ago. The relative interest rate differential is the reason for that, and although the RBA is less likely to ease monetary policy across the Tasman after stronger than expected December quarter Australian inflation, nor is it likely to tighten as early as the RBNZ, which is still expected to be the first central bank to tighten in the current upswing among developed economies.

Global upturn driven from the West

For the first time since the global financial crisis in 2008, it will be the developed economies that determine how well the global economy performs in 2014. The defining characteristic for world growth this year is the emergence of a synchronised cyclical recovery in the developed world.

However, it will be anemic in places – much of Europe especially - and it will bring challenges for NZ. For example, Australia's golden run has ended for the time being. The county has bloated cost structrures, needs structural reforms in labour and other contentious areas, and is politically unsettled with an unpopular new government. Chinese

The world at a glance



demand for its hard commodities is weak and looks likely to remain so, at least in the short term. After seven years acting as a safety valve for NZ exporters and job-seekers, our nearest neighbour can no longer be so counted on to pick up the slack if the rest of the world doesn't play ball.

For New Zealand companies with global market interests, the shift back to growth in traditional export markets represents both opportunity and a prompt to consider where resources are being targeted. Many of the developed world economies are as well or better known to us than the Asian tiger economies we've been cultivating in response to the First World downturn and such game-changers as the China free trade agreement.

The Asian Financial Forum in Hong Kong in January was notable for the extent to which US and European speakers talked up their regions' prospects while Asian speakers were cautious. The consensus view on Chinese government economic reform plans is that they are positive for continued high annual percentage growth rates in China, but that the days of 10%-plus are gone now. Rather, Beijing will be targeting 7 to 7.5% growth this year, and will be inclined to see that as both sustainable and desirable as that giant economy reorients to meet the social, economic, and environmental needs of its citizens. Note those aims do not include their political needs. China under Xi Xinping is making a fundamentally conservative political shift, with negative economic consequences for luxury brands, but positives for food products NZ supplies to the burgeoning Chinese middle class.

This year, however, the whip-hand on global economic sentiment is back more firmly than ever with the US. The first round of tapering, announced before Christmas and implemented without significant turmoil last month, has been followed with a second US$10 billion reduction in US monthly bond-buying, so that only US$65 billion of new money is being printed in the US each month. A key variable now will be how quickly global financial markets learn to read Janet Yellen, Ben Bernanke's replacement at the Fed. Bernanke has set the tone for a US recovery, underpinning a cyclical global recovery in the developed economies. Whether or not that is preserved in coming months is fundamental to how 2014 pans out, especially as the latest Fed move has been accompanied by a wave of developing economy jitters brought on by capital heading back to the US as tapering gathers momentum.

That the Fed's actions are so significant underlines the relative weakness of US President Obama, who scaled back his ambitions for this year's State of the Union address, but is indicating he'll expend political capital to get fast-track authority to push through US agreement to a TPP trade deal and make more use of executive orders to bypass deadlocks on Capitol Hill. His Democrat allies are as much a problem as the Republicans. In contrast with NZ media coverage of the secretive trade talks, which assume US interests dominate the TPP agenda, US media have been reporting pushback from other TPP countries on US demands relating to environmental standards. This has echoes of NZ's refusal to countenance American attempts to jack up pharmaceutical prices here by having TPP undermine Pharmac.

Trading partner growth

(2012 actual; 2013-14 Consensus Forecasts; 2015-16 figures Hugo estimates)

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Australia	27.8	3.7	2.4	2.7	3.0	3.3	1.8	2.4	2.7	2.6	2.7
China	17.1	7.7	7.7	7.5	7.4	7.2	2.6	2.6	3.1	3.3	3.1
United States	11.0	2.8	1.9	2.8	3.0	3.0	2.1	1.5	1.6	1.9	2.3
Japan	8.9	1.9	1.7	1.7	1.2	1.1	0.0	0.3	2.3	1.6	1.4
Eurozone	7.9	-0.6	-0.4	1.0	1.4	1.5	2.5	1.3	1.1	1.4	1.6
United Kingdom	3.9	0.1	1.7	2.6	2.4	2.2	2.8	2.6	2.3	2.3	2.5
South Korea	4.3	2.0	2.8	3.5	3.7	3.9	2.2	1.2	2.1	2.6	3.0
Indonesia	2.3	6.2	5.7	5.4	5.8	5.9	4.3	7.0	6.2	5.3	5.3
Hong Kong	2.2	1.5	3.0	3.5	3.6	3.9	4.1	4.3	3.8	3.6	3.4
Taiwan	2.3	1.3	2.0	3.3	3.8	4.0	1.9	0.8	1.4	1.8	1.9
Singapore	2.2	1.3	3.7	3.8	3.9	4.3	4.6	2.4	3.0	2.8	2.7
Malaysia	2.4	5.6	4.5	5.1	5.0	5.5	1.7	2.1	3.1	3.4	3.1
Philippines	1.9	6.8	6.9	6.3	6.2	5.7	3.2	2.9	4.0	3.9	4.3
Thailand	1.8	6.5	2.9	3.6	4.6	4.8	3.0	2.2	2.4	2.8	3.2
India	2.3	5.0	4.7	5.4	6.8	7.1	10.3	9.8	8.0	7.0	6.3
Vietnam	1.6	1.7	1.8	2.2	2.5	2.5	1.5	1.1	1.5	1.9	2.0
NZ Trading Partners	**100.0**	**3.6**	**3.3**	**3.7**	**3.8**	**3.9**	**2.3**	**2.3**	**2.7**	**2.7**	**2.7**
Forecasts for New Zealand											
Consensus		2.7	2.7	3.2	2.7	2.5	1.1	1.1	2.0	2.3	2.3
BNZ Forecasts		2.6	2.7	3.9	2.3	2.2	1.1	1.1	1.9	2.7	2.9
The World		**2.7**	**2.4**	**3.1**	**3.3**	**3.3**	**3.0**	**2.7**	**3.0**	**3.0**	**3.1**

NZ Business and Economy Round-Up

Agriculture

The median sale price for a hectare of **dairying land** rose 11% to $38,267 in calendar 2013, according to the **Real Institute of New Zealand**. The median for all farms was $24,163 per hectare, up 4.9% for 2013.

After warning last year that prices for dried commodity products were so strong they were denting margins on higher margin products, **Fonterra's** first two GlobalDairyTrade auctions of the year have shown a strong uptick in the price for both cheese and butter.

French global food firm **Danone** has initiated proceedings against Fonterra in the NZ and Singapore courts alleging damages of 350 million euros from last year's recall of infant formula, following false alarm over contamination. Its NZ unit reported a local cost of $25.7 million from the recall, which will be borne in the FY2013 accounts. Fonterra also suffered another food poisoning scare this month, recalling fresh cream distributed in the upper North Island after discovering E.coli during routine testing.

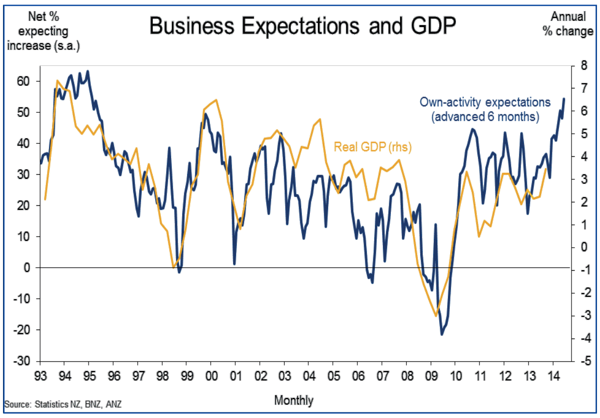
Banking and Finance

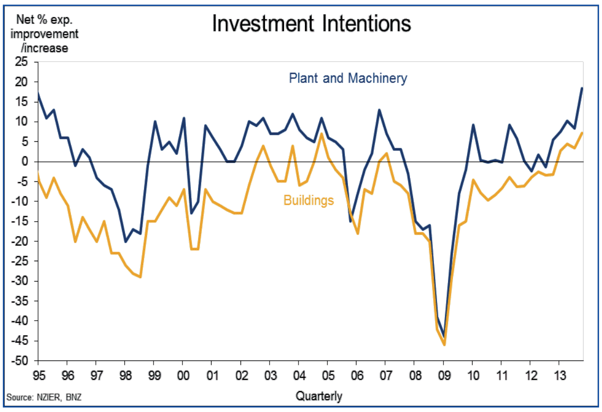
Fonterra raised 1.25 billion renminbi in its **second Chinese currency debt issue**. The five year bonds are set at an annual interest rate of 3.6% and will be used to repay debt and expand Chinese operations. This year's Asian Financial Forum in Hong Kong was dominated by discussion of renminbi liberalisation and Beijing's strategy for its emergence as a global currency.

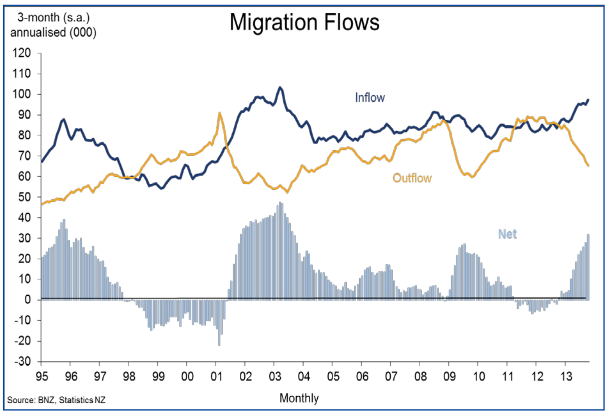
Construction and infrastructure

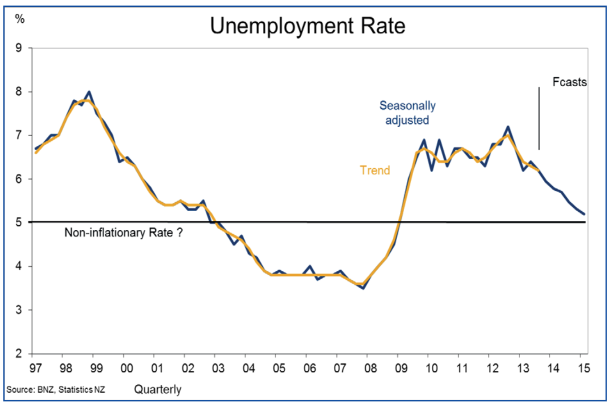
Carter Holt Harvey is facing Commerce Commission proceedings to determine penalties relating to price-fixing in the Auckland timber market with Fletcher Distribution in late 2012, to which it has already admitted. The commission's investigation into the NZ building products market continues. New entrant plasterboard and insulation provider Knauf, is to establish its own retail and trade outlet network, on the back of winning contracts to supply materials to the Christchurch rebuild. German-based Knauf is one of the world's largest suppliers of plasterboard and sees NZ as an extension of its recent moves into Australia.

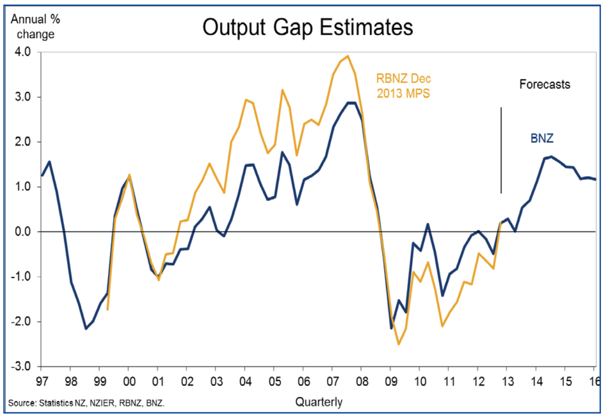
Fletcher Building chief executive Mark Adamson told The Australian newspaper his senior managers need to be paid more to retain global talent in NZ and that his board supports but does not fully understand his strategy. Outgoing chairman Ralph Waters has not commented. Veteran banker Sir Ralph Norris is joining the Fletcher board, fuelling speculation he will be its new chair.

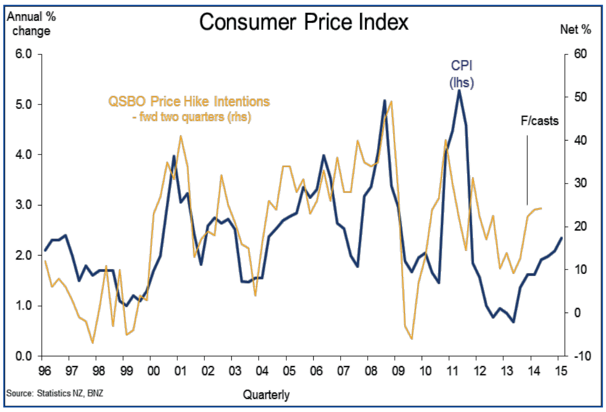


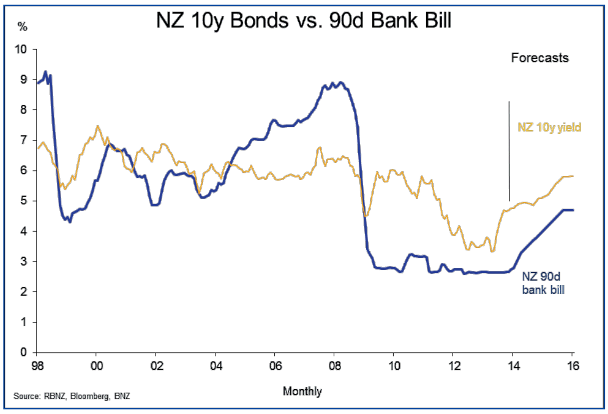


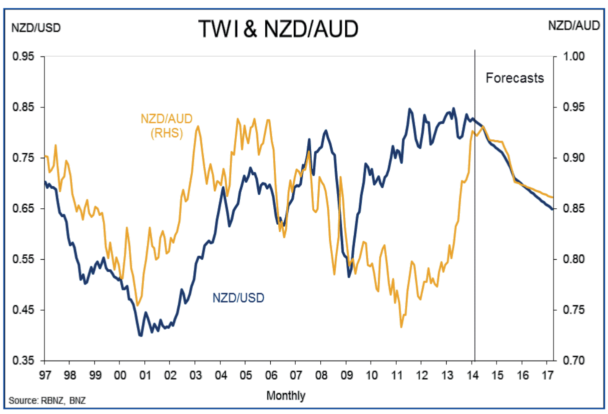












US fund Capital Group has taken a 5.4% stake in Infratil, as director Duncan Saville-connected Utilico continues to sell down. Utilico now holds 8.8%, down from 13.3% in December.

Electricity

Meridian Energy says it detected a 1.1% underlying rate of growth in national demand for electricity in calendar 2013, despite a warm winter and after stripping out known reduced demand from **Norske Skog** and **New Zealand Aluminium Smelters**, whose total use was slightly above contract minimum. Meridian says its hydro lakes are well above average levels and reports ongoing weak wholesale electricity prices during the last six months of last year.

Genesis Energy is preparing for privatisation, ending coal imports from Indonesia, re-signing on more flexible terms for coal from **Solid Energy's** Huntly East mine, and announcing the departure after overseeing major IT systems and customer initiatives, of GM strategy, Sheridan Broadbent.

More than one million smart meters have now been installed, the **Electricity Authority** says.

Wellington-headquartered **Contact Energy** has rekindled its relationship with the NZ International Festival of the Arts, sponsoring an outdoor light show spectacular in the Wellington Botanical Gardens.

Innovation and new technology

NZX-listed intelligence software developer **Wynyard Group** shares have risen almost 150% this month, following a string of announcements of new commercial relationships, including in the UAE and with a UK-based gun-tracing expert, Arquebus Solutions. The shares listed last July at $1.15.

Minerals, oil and gas

The busy summer drilling programme got off to a mixed start. **Anadarko** has completed its Deepwater Taranaki well without incident and is heading south to the Canterbury Basin to drill another. **NZ Oil & Gas** shares took a knock on the announcement its Matuku exploration well, offshore Taranaki, found no significant oil or gas shows. Todd Energy took delivery of a new $42 million onshore drill rig for use initially in its Mangahewa field development. The **Shell/OMV** joint venture confirmed it will drill in the Great South Basin next summer.

Seabed ironsands miner **TransTasman Resources** will hear very soon whether its application for an EEZ consent to mine off the coast of Patea will be accepted for consideration. Human error in loading application documents to its website required the Environmental Protection Authority to extend public submissions by a month, but it has been able to accommodate TTR's timeline to a proposed mid-year

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ECONOMY AT A GLANCE

New Zealand economy

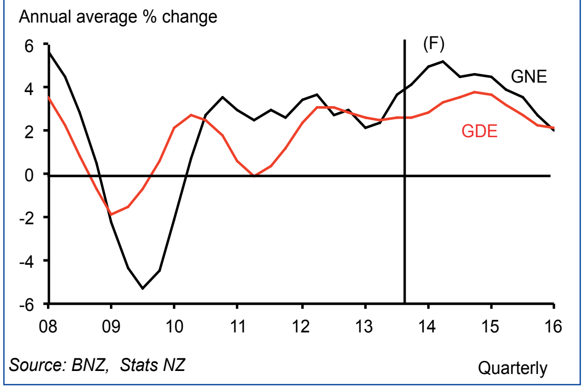
(% change on previous year
Calendar year except where indicated)

	2012A	2013F	2014F	2015F	2016F
GDP components					
Consumption	2.0	2.7	2.7	1.8	1.3
Investment	6.8	9.8	9.7	5.6	1.9
Stocks (contribution to growth)	0.3	0.0	0.0	-0.1	-0.1
GNE	3.0	4.1	4.7	2.7	1.4
Exports	2.2	0.9	4.2	3.8	4.3
Imports	2.6	6.2	6.9	4.5	1.8
Activity					
Real GDP (production)	2.6	2.7	3.9	2.3	2.2
Output Gap	0.2	0.7	1.6	1.2	0.8
Labour productivity growth	2.3	0.7	0.9	-0.2	0.3
Employment growth (annual % change)	0.4	2.3	3.0	2.1	1.7
Unemployment rate (S.A. % as at Dec Q)	6.7	5.9	5.3	5.1	5.0
Inflation (% increase from Dec Q previous year)					
Consumer prices	0.9	1.6	2.4	2.9	2.8
Average hourly earnings	2.6	3.2	3.6	3.8	3.2
Terms of trade	-8.9	23.0	-9.6	-1.5	5.2
Financial sector					
Operating balance (OBEGAL)					
(as % of GDP – June Year)	-4.4	-2.1	-0.9	0.0	0.3
Net debt (as % of GDP – June)	24.3	26.3	28.4	28.7	28.1
90 day bank bill (%) (1)	2.7	2.7	4.0	4.7	4.5
5 yr NZGS yield (%) (1)	2.9	4.2	4.8	5.3	5.1
10 yr NZGS yield (%) (1)	3.5	4.8	5.1	5.8	5.6
External sector					
$NZ/$US(1)	0.832	0.823	0.770	0.699	0.659
$NZ/$A(1)	0.794	0.916	0.917	0.874	0.863
$NZ/Y(1)	69.5	80.3	85.5	81.8	77.1
TWI(1)	74.3	77.4	76.8	72.3	68.7
Trade balance $(m)	149	1497	2337	-1541	1728
Current account $(m)	-8590	-6847	-6956	-11411	-8168
(as % of GDP)	-4.1	-3.1	-3.0	-4.7	-3.2

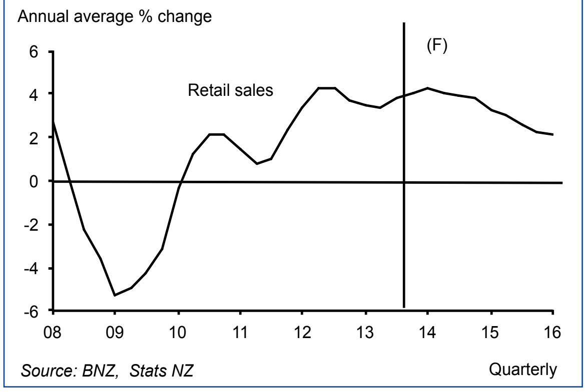
(1) Average for month of December

(2) Using current prices

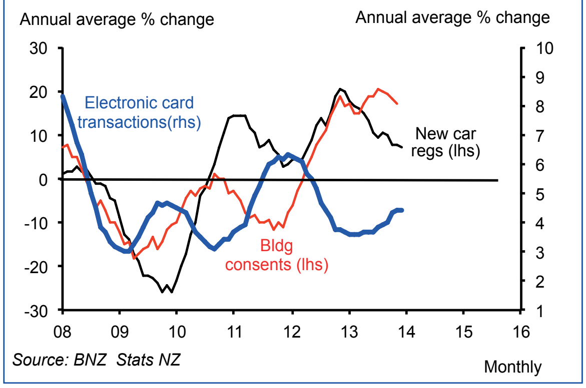
Economic growth



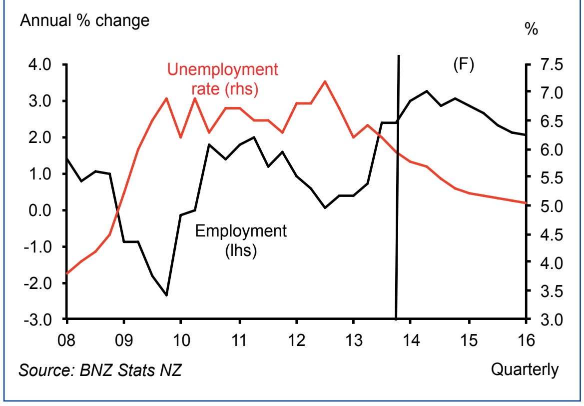
Retail sales



Partial indicators

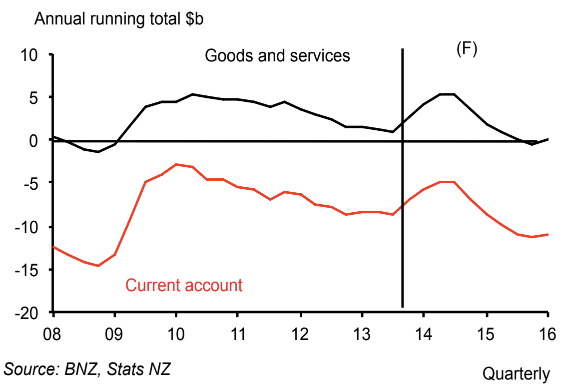


The labour market

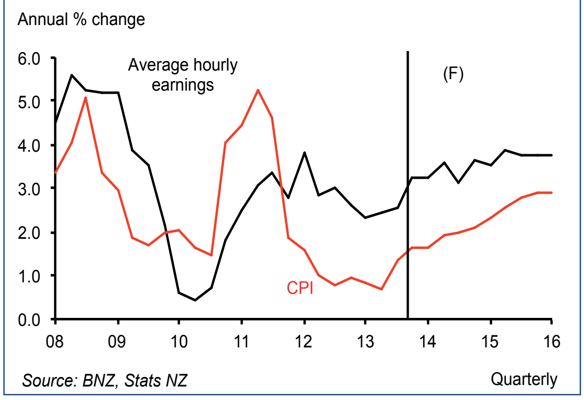


ECONOMY AT A GLANCE

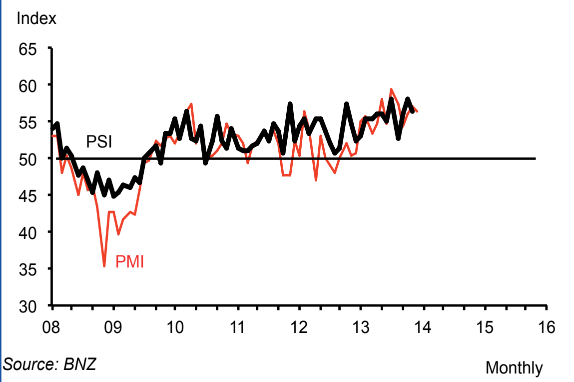
Balance of payments



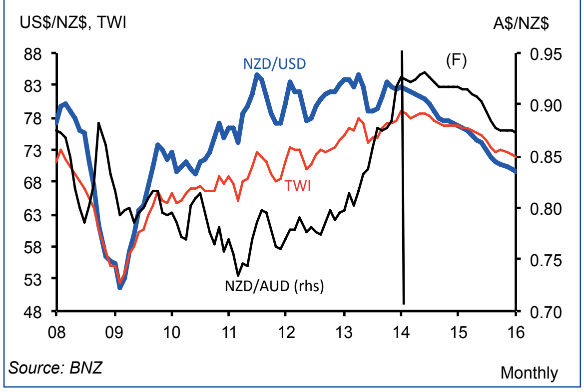
Inflation



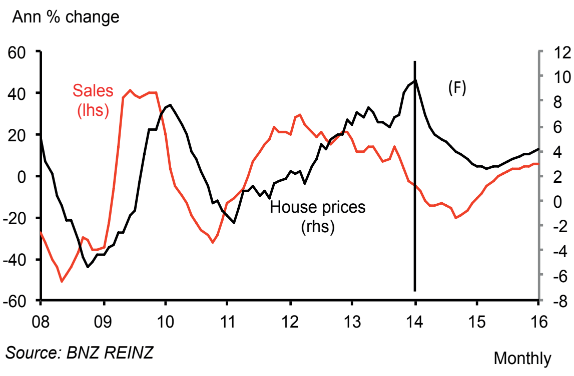
PSI and PMI



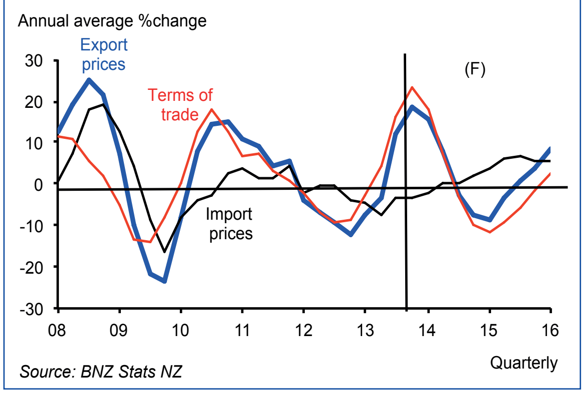
Exchange rates



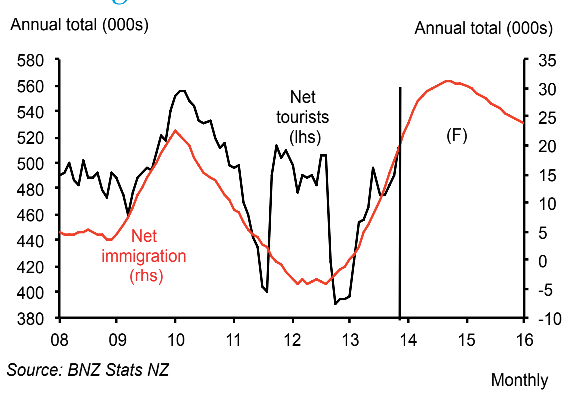
Housing market (three month average)



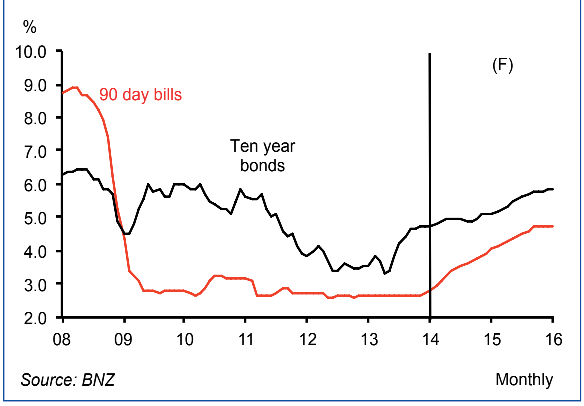
Terms of trade



Net migration flows



Interest rates



DOMESTIC ECONOMY

Continued from p9

funding round by extending its decision date by only three days.

Chatham Rock Phosphate is seeking a further $6m new capital to advance its deep-sea phosphate mining operation, ahead of applying for a marine resource consent under new EEZ regulations. It already has a mining licence, but is seeking an expanded range. The fishing industry remains opposed because it fears the operation's potential impact on orange roughy spawning grounds.

Bathurst Resources learnt the hard way about discretion in document destruction. A blogger discovered thousands of anti-mining postcards addressed to the company in rubbish bags outside its Wellington headquarters. They were supposed to have been recycled.

Telecommunications

Telecom paid $83m for the final "pair" of **700MHz 4-G spectrum**, compared with $22m apiece for three pairs purchased in the first round. Vodafone appears to have been outbid. 2Degrees argued spectrum unsold in the first round should have been retained for later sale. Both Telecom's and Vodafone's purchases still require Commerce Commission approval. The outcome leaves Telecom with four pairs of 700MHz spectrum, Vodafone with three, and 2Degrees with one. Proceeds for the Crown total $259m, against the $157m cost of clearing the spectrum of analog TV broadcasts and its reserve price of $198m.

Credit rating agency Moody's cut **Chorus** to Baa3, the lowest available rating while retaining investment grade, on the outlook created by regulatory uncertainty created by the Commerce Commission's determination on the price of unbundled bit-stream access. Chorus remains on negative outlook.

Retail

The Warehouse Group and Hallensteins Glasson have reported earnings slumps, although for different reasons. Warehouse says a strong Christmas didn't offset a first quarter margin squeeze, whereas Hallensteins says its Christmas sales were poor, in the latest demonstration of challenges for high street clothing retailers battling the growth of online shopping.

Transport

Air NZ has announced a major new codesharing arrangement with **Singapore International Airlines**, placing further pressure on financially embattled **Qantas**. Abu Dhabi-based **Etihad** - in cahoots with Air NZ, SIA and Virgin Australia on Australian domestic routes - has said it will "never" fly to NZ, easing any potential for tension with the Air NZ/SIA tie-up. Meanwhile, **Infratil** and **Wellington City Council**-owned **Wellington International Airport** has received a draft report from **Ernst & Young** on the business case for a $300 million airport runway expansion to create a rival global hub to Auckland. The move is vigorously opposed by Air NZ.

Media

Bauer Group gained approval to buy the NZ Listener, NZ Woman's Weekly and other magazine titles from **APN News & Media,** adding to its purchase already of Metro and North & South from ACP last year.

NZX sold its Newsroom email political and business news alert service to Sublime, owned by interests associated with IT entrepreneur and Labour Party backer Selwyn Pellett. Sublime has become majority shareholder in the Scoop website, which runs a rival service to Newsroom's. Amalgamation of the two is expected.

Statistics

Quarterly **inflation** to Dec 31 2013 was stronger than expected, at 0.1% vs consensus expectations of a 0.1% fall, to give an annual rate for calendar 2013 of 1.6%. The result underpins expectations for higher interest rates this year. Airfares, housing costs, and electricity tariffs were significant contributors.

Indices

NZIER's **Quarterly Survey of Business Opinion** (date) showed the strongest sentiment, but there were flat patches. Business NZ/BNZ **Performance of Manufacturing Index** for December recorded the 15th consecutive month of net positive sentiment, although at 56.4, the seasonally adjusted figure for December was a slight fall from November's 56.7. The index stood at 50.7 a year earlier.

ANZ-Roy Morgan's **consumer confidence survey** rose to 135.8 in January, up 6.4 points on December, and the highest level since January 2007, before NZ's double-dip recession began.

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