

As interest rates rise, signs of a falling dollar

Page 5

Reserve Bank governor Graeme Wheeler will almost certainly raise the Official Cash Rate for the first time in three years at the March 13 monetary policy statement. Yet at the same time, there are signs the steam is starting to come out of the kiwi dollar.

What the Matt McCarten appointment might mean

Page 2

By appointing Matt McCarten as his new chief of staff, has David Cunliffe shown just how desperate things appear to the Labour Party from the inside? The Labour leader has responded to flat-lining polls and a new whispering campaign from caucus critics by appointing a hard-left right-hand man. Are both thinking more about the 2017 than the 2014 election?

Boom times continue

Page 5

A record trade surplus in January, spurred by exploding dairy exports to China, the largest net inward migration in a decade and among the highest employment rates in the developed world. The NZ economy is steaming along.

No deal in Singapore

Page 6

The Trans-Pacific Partnership negotiating parties made little progress at a four day meeting in Singapore and scheduled no future date to resume talks. The US and Japan, the two largest economies in the 12 country attempt to create a new kind of 21st century trade and investment pact are poles apart on automotive and agricultural tariffs.

National pulls ahead in February

Page 2

After stumbles on key policy announcements, the Labour Party has sunk back close to 30% popular support and begun to eat into the Green Party vote. That's reversed the marginal lead the Opposition parties had over National last month.

Genesis Energy - last cab off the rank

Page 4

The government is tacitly acknowledging the potential difficulty it could face mustering sufficient investor appetite to get the Genesis Energy partial privatisation away at an acceptable price. Hence the decision to offer as little as 30% of its smallest generator-retailer for sale.

Oil industry seeks new spokesman

Page 8

Former Shell executive David Robinson made considerable impact as the head of the Petroleum Exploration and Production Assn of NZ over the last couple of years. Now he is off to head NZ Energy Corp's local operations.

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%	3.2%	3.8%
December 2016	2.8%	2.2%	65.9%	86.3%	3.3%	3.9%

Labour pains, National pleasure and six months at least to go yet

The next instalment, now unfolding, in Labour's unhappy start to 2014, is a hard-left attack on the "B team" which lost to David Cunliffe in last year's leadership battle. Grant Robertson, Jacinda Ardern and Co will be targeted as white-anting Cunliffe.

This had credibility before Matt McCarten's appointment as Cunliffe's chief of staff. Now it looks like civil war. Cunliffe's missteps so far this year haven't gone unremarked among Labour MPs. Some of that has seeped out enough for National MPs and Press Gallery journalists to build a storyline of dissent.

After the leadership fight – Cunliffe won the party and the unions and Robertson won the caucus – there was determination to put on a show of unity through to the election. This is still the line but it is not holding.

Now, if anything, the show of unity will be explained away as the post-Cunliffe leadership building credible unity in the runup to the 2017 election. A hard-left blame game would put that at risk, yet that is the risk Labour/Cunliffe is embracing this year.

The polls shifted against Labour in February, the first serious month of the year. The four-poll rolling average shifted from Labour+Greens' favour to a 5-point advantage to National. (See chart.) That is consistent with the very strong reading in polls that the country is going in the right direction/on the right track. National's four-poll average lifted to 48.1% and its own internal polling lifted to 50%.

That still doesn't necessarily get National over the line for a third term. The problem is Winston Peters: New Zealand First's latest four-poll average is 4.3%, a strong enough platform for a 5%-plus reading if the election was four weeks from now.

National's line on Peters has wavered from Key

being prepared to talk with him after the election (rationalisation: "if we embrace him that will turn anti-government people off him") to "a vote for Peters is a vote for Labour-Green" to frighten voters away from a "hard left" alternative government.

It doesn't help Labour that Cunliffe fluffed the launch of the child-centred policy in January and that there have been so many changes of shadow minister it is hard to divine the policy. None of Labour's flagship policies: cheaper electricity, a state insurance company, and the \$300 a week "baby bonus" have had cut-through.

It doesn't help the Labour-Greens that Peters has had some mis-hits, including a baseless announcement that Huka Lodge had been sold to the Chinese. Peters is in Supergoldcard territory and it is showing from time to time.

None of this should be taken – yet – as ruling out a Labour+Greens government by November. Peters still looks like 5%-plus. Labour has said he will definitely not go with National, but he's said that before... the pointers have firmed for a third National term. In a third term, Opposition parties harden up.

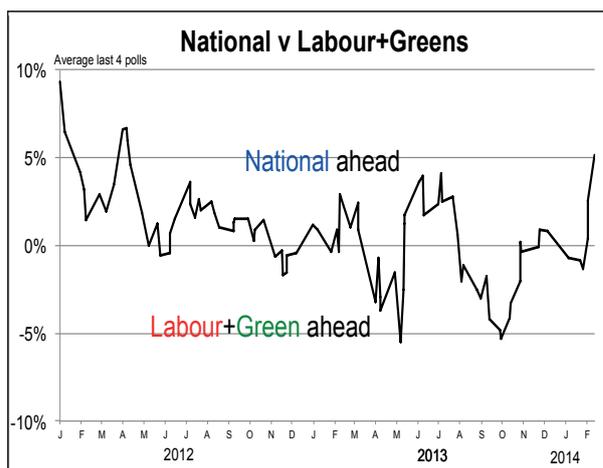
Why Matt McCarten?

Cunliffe's appointment of Matt McCarten as his chief of staff plays straight into National's playbook that a change of govt will produce a "hard-left" administration. McCarten was present at the birth of Jim Anderton's New Labour Party in 1989, and the subsequent creation of the Alliance. As Alliance director, he sided with the faction which split with Labour in 2002. The Alliance lost all its parliamentary seats in that year's election, while Anderton's rump Progressives Party soldiered on as a coalition partner to Helen Clark.

More recently, McCarten both stood as a candidate for Mana in a 2010 by-election, and has advised the party led by Hone Harawira, and populated by NZ's "old-left."

Cunliffe has hired an enforcer to deal with the caucus faction whose support of his leadership remains skin-deep. But for all the talk of "extraordinary chemistry" between them, it was McCarten who wrote in November 2012 that "with Cunliffe, I can't escape the feeling that he has the same phoniness as the Republican US presidential nominee Mitt Romney."

Pushing Labour leftwards is already cannibalising the Green vote, while lessening its appeal to centrist swing voters. It may be that both Cunliffe and McCarten have begun positioning for a loss in 2014, but in different ways. Cunliffe may be seeking discipline that could help him weed out



his right-leaning critics. McCarten may see it as an opportunity to remake Labour as a far more definably left-wing choice by 2017, with or without Cunliffe at the helm. The world is changing...

ACT+Prebble

ACT's conference is on March 1 at the Villa Maria winery.

David Seymour's appointment as Epsom candidate and Jamie Whyte's as leader outside Parliament initially refreshed the image, Whyte's defence of old comments on incest indicate naivety and potential to be painted with the same loopy brush as another would-be National helper, the Conservatives' Colin Craig. Richard Prebble's appointment as campaign director cannot be discounted. As leader in 1996 he took ACT from zero to 6%. Prebble has an iconoclast's talent for acute observation. But this is 2014, not 1996, when Prebble as leader took Act from zero to 6%.

What National needs from ACT is not just Epsom, which is net just a half-seat, but some coat-tail list MPs. At this point that doesn't look promising, but it can't be ruled out. If Prebble attracts some money – core donor Alan Gibbs will be at the conference – membership builds a bit.

But – and here's the catch – most party votes ACT adds will come from National.

Tony Ryall moves on

The National Party's post-2014 rejuvenation is turning into one of the biggest changes of line-up ever seen in a caucus, with the departure of Health Minister Tony Ryall. His decision to leave politics is entirely his own. Ryall has always had a level-headed approach to work-life balance and succession. He has done an able job of improving the "bang for buck" in public health, constraining spending growth while reducing waiting lists. He is the second of the so-called 1990 intake "brat pack" to depart, following Roger Sowry who lost his seat a decade ago, leaving just Bill English and Nick Smith from the original four.

"Core" cities decide to go "business friendly"

The six "metro" cities – Auckland, Tauranga, Hamilton, Wellington, Christchurch and Dunedin – have issued "business-friendly" guidelines to "increase support of business activity across all of New Zealand".

The business response was "good first step". It is another element in Local Government New Zealand's shift of strategy and positioning to the

front foot since Malcolm Alexander took over as chief executive. It comes after a legislative and rhetorical pounding by the government. Another element is an association with the Institute of Directors to sharpen councillors' governance.

The metro cities argue they are business-friendly through their investment of \$8 billion a year in infrastructure. They now aim to reduce "regulatory and non-regulatory barriers, costs, risks and uncertainties in all forms of commercial activity".

The six principles are: "excellent relationships and partnerships", identifying local business needs, provide certainty and clarity, "mak(ing) every interaction with business count", looking for opportunities to support business and responding rapidly and flexibly after "major emergencies".

Pretty much apple pie but notable for having been said and it gives business a hook for future interaction. A booklet with the principles details case studies from each metro council for other councils to emulate.

- In passing, Hugo notes Tauranga's project to develop a significant campus, including a marine biology research centre, in association with Waikato University which has some outreach classes there.

Scan the horizon

A Hugo value-adding service

A strategic planning retreat coming up? A regular planning meeting needs to push out the horizon? Visitors from head office or the regional HQ? A new country manager? A gathering of clients? A conference of your business association?

As an extension of its regular service, Hugo helps members frame the bigger picture – of the international economy, the domestic economy and the policy environment through changes of ministers and government. This service is available to Hugo member companies at all levels in the company's organisation.

We can't stop the unpredictable. But we can help make the future more predictable.

Ring us on **(04) 385 6249**
or email to hugo@thehugogroup.com

Get more from your Hugo connection

Ngapuhi settlement at \$250m?

Florid talk on Waitangi Day, created in part by TV3 coverage, encouraged the idea of a \$1/2 billion settlement for Ngapuhi, by far the most

populous, disputatious and heavily concentrated iwi. Labour's Shane Jones, however, is probably more on the money with his expectation of a total more like \$250m. The most significant development is the recognition of Tuhoronuku as the mandated negotiator for a settlement. While there's still friction among some elements of Ngapuhi on this, the fact is that negotiations can now occur.

Labour's wood plan

Elsewhere, Jones has hinted that one of Labour's election year economic development planks will be a new focus on high value manufacturing using NZ timber.

The so-called "wood first" policy would see timber products made a preferred construction material for government projects, including in the Christchurch rebuild.

"If you're building capital projects that the Crown is involved in, either completely paying or helping to underwrite, then there will be an accent on using timber sourced from our forestry resource in NZ," said Jones in a little-noted regional media report.

"Jonesy" vs the supermarkets

Shane Jones has also been making the political running for Labour with his attack on Australian supermarket owners and their allegedly unscrupulous bargaining tactics. While hugely popular and successful in forcing a Commerce Commission inquiry, Jones's attack is dangerous on several fronts.

For a start, it raises questions about Labour Party internal discipline. While Jones was assiduous in phoning journalists to warn them he was going to make his inflammatory initial speech under the protection of parliamentary privilege, it seems his leadership was unaware of the scale or scope of his intentions.

In other circumstances, such a boldly unilateral action would be a sacking offence. No party leader likes to be blind-sided by one of their own, especially when the MP concerned remains a potential leadership challenger at a time when David Cunliffe's leadership has started to become an issue again.

Also dangerous is whipping up anti-Australian feeling. Woolworths chairman Ralph Waters's public comments played into Jones's hands, but his observation about the virulent level of Aussie-bashing that runs through NZ political culture is true nonetheless.

Thirdly, while Jones may have struck a chord with

small business owners and consumers, his round-arm swing at a large employer and investor in the NZ economy sits uncomfortably with his role as Labour's policy lead on economic development. If the Commerce Commission doesn't find evidence of the crooked dealings he's alleged, there will be a credibility issue for Jones. Given how long such inquiries take, however, that is unlikely to be before polling day.

The Genesis float - more politics than economics

Finance and SOE Ministers Bill English and Tony Ryall will be hoping it's third time lucky when it comes to enticing retail investors into the Genesis Energy float. The pre-float bookbuild approach should take some of the uncertainty out of the decision to invest. By appearing willing to sell as little as 30% of the company, the Treasury also hopes to support the issue price for an asset that a private owner would almost certainly not be selling at this time. While general market conditions are favourable for another IPO, the MRP and Meridian floats have focused investors' minds on the low growth prospects and regulatory threats that dog electricity market participants at the moment. On the other hand, the generator-retailers are all sitting on cash and cutting back capex in response to generation over-build. They should churn out some healthy dividend streams in the next three or four years. The Genesis sale is ultimately political. A decision not to sell would have looked weak and played into the Opposition's hands. It would also have left Genesis as the only wholly state-owned electricity generator and potential plaything for future govts seeking interventionist reforms.

Environmental reporting bill introduced

Environment Minister Amy Adams has introduced her Environmental Reporting Bill, which will mandate independent reporting on five key areas: air, climate and atmosphere, freshwater, marine, and land, with bio-diversity a theme across all domains.

One environmental domain report will be released every six months and a report synthesising all five areas will be published tri-ennially.

Meanwhile, Adams will shortly be considering feedback on freshwater policy.

Environmental lobbyists are pushing for more stringent nitrate measures, a strong narrative on invertebrate health in the absence of a nationally applicable measure, and for the proposal that a "swimmable" standard should be targeted. ■

The dairy economy keeps on booming

Trade statistics for January show the dramatic ascendance of the Chinese economy as NZ's most important export trade partner continues.

Exports to China totalled \$590m in January, a 92% lift on Jan 2013, with increased milk powder exports the dominant factor. That helped push the trade surplus to a record for the month of \$306m, despite a 3% fall in the value of exports to Australia, to \$556m.

MPI's latest Situation and Outlook for Primary Industries revises receipts from dairy products in 2013/14 up by 19.5% to \$16.7 billion, based mainly on a drop-off in US and European production. MPI sees a 10.6% fall in 2014/15 to \$14.9 billion, virtually unchanged from its previous set of the same forecasts.

There's just one wrinkle in the theory that Asian economies generally, rather than just China, underpin the food export outlook. Comparative figures produced by MPI show a declining trend in dairy exports to SE Asian markets since the mid-2000's. Only the Middle East/OPEC shows significant growth, outside of China, whose growth is stratospheric since 2008. US dairy exports picked up a little in 2013, but had been on the slide for most of the previous decade.

Meanwhile, MPI has also increased its output forecasts for the meat, forestry, seafood and horticulture sectors.

The most dramatic lift from the previous forecasts, issued in June last year, is for forestry, up 14.1% to \$5.1 billion in the 203/14, with a modest 3.4% in 2014/15. Meanwhile, a further increase of 35 cents per kg of milk solids to this season's projected Fonterra payout will add around \$600m to cooperative members' incomes.

A weaker Kiwi dollar on the way?

Bank of New Zealand economists are reporting forward hedge cover by exporters is at its shortest duration for five years, indicating expectations of a lower New Zealand dollar.

The bank's aggregate Exporter Hedging Index shows exporters have run down forward cover to an average 5.5 months, compared to a historically high 8.8 months average in mid-2013.

The trend applies across all major cross-rates, other than the Japanese yen. Cover against the Aussie dollar and British pound has been around 80% lower than the two year average recently.

The upshot is that exporter hedging is returning to the inverse relationship that prevailed with the TWI, prior to the GFC. Since then, exporters have been more heavily hedged. The recent shift suggests exporters are becoming convinced the next big movement in the kiwi is downwards.

All this despite many signs that the kiwi dollar could stay over-valued for a while yet. First, this week's terms of trade figures are expected to yield a new 40 year high.

Once-in-a-decade annual economic growth of 4% or more is increasingly likely to be achieved or surpassed.

And second, there's an almost universal expectation that the Reserve Bank will lift the Official Cash Rate at the March 13 Monetary Policy Statement, and the bank's prediction the OCR will rise at every review point, bar one, over the following year.

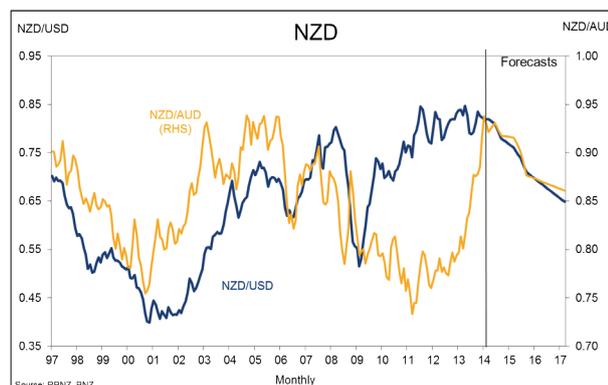
The exact size of those increases is unclear. The first may only be 25 basis points, and government Ministers hope it won't be a full percentage point before the election. Making that true becomes another reason to call the poll in September rather than November.

Kiwis staying put

NZ's population growth rate has roughly doubled in the last year, as the flood of NZers to Australia has slowed to a trickle.

Net inward migration in the year to Jan 31 was 25,700, compared with zero in the year to Jan 31, 2013 and follows the highest annual inflow for a decade in calendar 2013.

There was still a net loss of 17,100 to Australia in the year to Jan, but that compares with a 37,900 loss a year earlier.

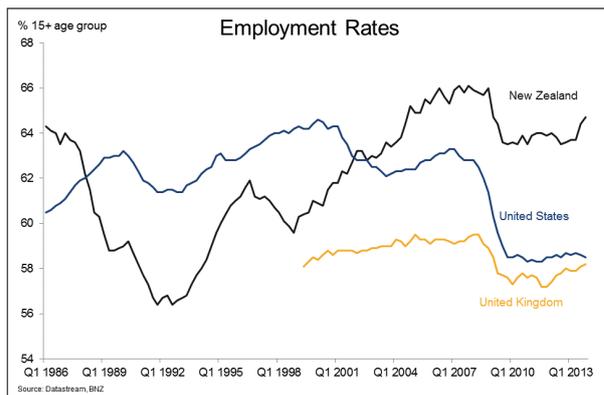


Employment rates very strong

Employment statistics tend to focus either on unemployment rates or participation rates, but another way to look at NZ's current labour market conditions is total employment rates. MBIE's latest quarterly labour market report puts the employment rate in December last year at 64.7%, the highest it's been since June 2009. It's forecasting that to rise to 66.6 percent by 2016, when it sees the current 6.2% unemployment rate falling to 4.8% and participation rates rising from 67.8% late last year to almost 70%.

These are not just strong in NZ terms, but are far higher rates of employment and labour

market engagement than are common in other developed economies. In the UK and US (see chart), employment rates are below 60%, and while the Australian employment rate is close to 60%, it's been declining in recent months, while NZ's is climbing.



Housing market slowing

The combination of loan-to-value ratio lending restrictions and anticipation of higher interest rates appear to be putting a lid on the housing market.

The jury is still out on how much impact LVR's have had. Westpac suggests it has probably passed its peak, but the Real Estate Institute of NZ reports first-home buyers are still stepping back from the market, while property investors are becoming more active at the bottom end of the market. That implies further impetus to declining rates of home ownership.

Once interest rates start rising, they are expected to have a more marked impact on borrowers' behaviour than the last major monetary policy tightening phase, between 2004 and 2008, when only around 15 to 20% of lending was on floating rates.

That figure is now closer to 40% today, although it was above 60% last August, when a sudden swing to fixed rate lending began, in anticipation of rising rates.

US-Japan stalemate in Singapore TPP talks

Trade Ministers met for four days in Singapore to try and progress the 12 country Trans-Pacific Partnership trade and investment agreement. Trade Minister Tim Groser, who chaired the meeting, came away saying the negotiated texts had "stabilised" and there had been "huge progress over the last two or three Ministerials." However, observers noted the absence of dates for the next round of talks as a sign that major sticking points between the US and Japan on agricultural and automotive tariffs need to shift before it's worth scheduling another pow-wow. A report from the foreign affairs select committee on morale at MFAT suggests the resources expended on TPP are one reason for high staff turnover and a more sceptical view about the quality of NZ's trade negotiation skills. While there is draft TPP market access text setting out underlying rules, Groser says it's "not realistic to settle that until we have completed the bilateral market access negotiation." The Economist's Asian columnist, Banyan, observed that it was "hard to avoid the conclusion that any agreement is months or years away."

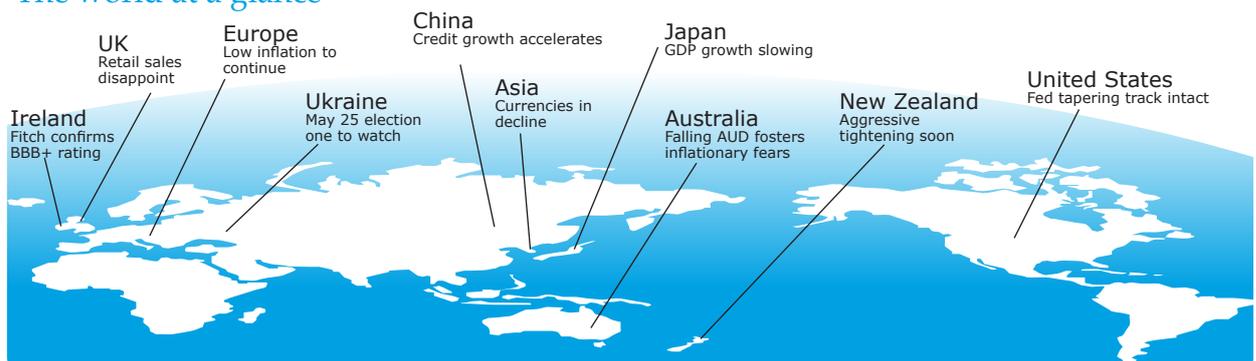
Meanwhile, prospects for an FTA with Russia appear very slim. PM John Key will be passing through Moscow later this month on his way to a UN conference, in the hope that a face-to-face meeting with President Vladimir Putin could attract the necessary political focus. However, with Ukraine melting down, Putin may well be focusing elsewhere.

US winter of discontent

Much has been made recently of the negative effects of severe winter weathers on US macro data, although the hope remains that previous signs of a stronger recovery will resume as winter passes.

That's emphasised by newly appointed Fed chair Janet Yellen confirming intentions to continue with

The world at a glance



tapering - the steady removal of monetary stimulus by reducing monthly bond-buying throughout this year.

It's worth bearing in mind that if a more positive view does start to take hold, and markets begin looking to beyond tapering, then the prospect of higher US interest rates will come onto the agenda.

US unemployment at 6.6% is now close to the 6.5% benchmark the Fed uses as a guide for when to raise rates, which remain close to zero, although that reflects declining participation rates as more Americans quit the labour market.

For the moment, however, Yellen is focusing on whether a string of disappointing data on jobs, housing, retail sales and industrial production are sign of fundamental weakness.

How secure is China's growth?

The re-emergence of headlines about the potential for credit weakness in the shadow banking system has seen the Chinese central bank temporarily relax monetary policy, leading to a fall in the value of the renminbi.

Last week's 1% managed depreciation was the largest such move since the currency was introduced in 2005, and reducing the sense among market-watchers that the RMB was a one-way bet upwards. The currency has appreciated by some 40% since 2005.

The move is being interpreted as indicating the Chinese monetary authorities have become concerned again about the shadow banking sector, particularly since a bail-out at the end of last month.

Weak EU recovery broadening

The EU Commission's Winter 2014 forecast suggested the EU recovery is broadening and that domestic consumption and investment are set to expand further, reducing the dependency of the recovery on the external sector. The aggregate fiscal stance is now judged to be close to neutral while the ECB's asset quality review provides an opportunity to finalise bank balance sheet repairs that are necessary for getting credit to support the real economy.

EU unemployment remains at record levels and the adjustment of previous imbalances is incomplete. The commission warns there is 'a serious risk of growth remaining stuck in low gear.'

Inflation is still well below the ECB definition of price stability and could exacerbate the risk of protracted lacklustre growth if it becomes entrenched.

While disinflation may have the positive effect of improving real incomes and supporting demand, it also makes adjustment in fragile member states more difficult. If inflation expectations shift lower, the corresponding increase of real interest rates and the debt burden would make it harder for growth to accelerate.

Australia: housing starts rise

Housing starts are gradually recovering, led by NSW, Queensland and Western Australia. The Housing Industry Assn is predicting the second highest number of housing starts in a decade in the year ahead, at somewhat more than 165,000. 🏠

Trading partner growth

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

Trading partners	Weights %	GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
		2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
China	17.1	7.7	7.7	7.5	7.3	7.2	2.6	2.6	3.1	3.2	3.1
United States	11.0	2.8	1.9	2.9	3.0	3.0	2.1	1.5	1.6	1.9	2.3
Japan	8.9	1.9	1.7	1.6	1.3	1.1	0.0	0.4	2.4	1.7	1.4
Eurozone	7.9	-0.6	-0.4	1.0	1.4	1.5	2.5	1.4	1.0	1.4	1.6
United Kingdom	3.9	0.1	1.9	2.7	2.4	2.2	2.8	2.6	2.2	2.3	2.5
South Korea	4.3	2.0	2.8	3.5	3.7	3.9	2.2	1.3	2.1	2.6	3.0
Indonesia	2.3	6.2	5.8	5.5	5.8	5.9	4.3	7.0	6.2	5.2	5.3
Hong Kong	2.2	1.5	3.0	3.5	3.6	3.9	4.1	4.3	3.8	3.7	3.4
Taiwan	2.3	1.3	2.2	3.4	3.8	4.0	1.9	0.8	1.5	1.8	1.9
Singapore	2.2	1.3	3.7	3.8	4.0	4.3	4.6	2.4	2.8	2.8	2.7
Malaysia	2.4	5.6	4.6	5.1	5.0	5.5	1.7	2.1	3.2	3.5	3.1
Philippines	1.9	6.8	7.2	6.4	6.2	5.7	3.2	2.9	4.2	4.0	4.3
Thailand	1.8	6.5	2.8	3.2	4.5	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	8.3	7.0	6.3
Canada	1.6	1.7	1.8	2.2	2.5	2.5	1.5	0.9	1.4	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	3.3	2.8	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	3.2	3.3	3.0	2.7	3.0	3.0	3.0

NZ Business and Domestic Economy Round-up

Weak Aussie dollar impacts seen in earnings season

One notable trend in the flood of first-half earnings in the last fortnight has been the dampening impact of Australian dollar earnings when converted to the relatively strong NZ dollar.

Fletcher Building, Sky City, IAG and Nuplex were among those to identify the issue. However, Australian corporate earnings have been a little stronger than expected, partly because expectations were already very low.

Leaving aside Qantas, whose A\$252m first-half loss and 5,000 job cuts are in a league of their own, the latest Australian earnings season was "one of the best in years", according to Harbour Asset Management's Andrew Bascand. Relative to expectations, profits were 3% ahead. Some 58% of companies beat expectations and 47% upgraded their profits. Miners, banks, tech companies and construction firms led the way.

The NZ earnings season so far has produced results roughly in line with expectations, although the market as a whole produced aggregate profits about 1.5% lower than expected. Weaker results from Telecom, Contact, TradeMe and Sky City offset strength seen in half-year results for Sky TV, Meridian and Auckland International Airport. Bascand says improving margins, and the potential for more margin growth because of the immediate economic outlook, was one of the themes to emerge among NZ companies that have reported in the last few weeks.

Oil, Gas and Minerals

David Robinson, who was headhunted to give the oil industry a stronger public profile in late 2012

is moving on to become NZ chief executive for onshore explorer and producer, NZ Energy Corp. As head of the Petroleum Exploration and Production Assn of NZ, with an expanded staff, Robinson made significant headway in putting the view of an industry that was previously having rings run around it by environmental critics.

Meanwhile, Environment Minister Amy Adams has confirmed oil and gas exploration in the EEZ will be treated as non-notified, discretionary activity under the new regulations, which came into force on Feb 28.

While unhappy with that decision, the Environmental Defence Society is planning a

constructive approach to the new regime and will be seeking to get alongside the industry to establish agreement on best practice.

Deep-sea mining

Submissions to the EPA on TransTasman Resources' application for a marine consent to mine ironsands in the southern Taranaki Bight show some difference of opinion in the fishing industry about the proposals.

While Talley's is opposed, Te Ohu Kaimoana/Maori Fisheries Commission is not. It appears TOKM isn't convinced there are significant threats to fisheries resources in an area that TTR's environmental impact reports suggest is not abundant in marine life. The recent discovery, however, that blue whales migrate through the area frequently has given opponents a fresh angle.

Meanwhile, Chatham Rock Phosphate says it will list on London's AIM exchange in the next two to three months.

Bathurst hunkers down

Bathurst Resources has placed development of its hard-won Escarpment open-cut mine on hold. After taking more than two years to win resource consents, Bathurst judges current global coking coal prices of around US\$120 a tonne as too low to justify any more than preparatory works. Documents from Environment Court hearings show Bathurst saw US\$165 a tonne as its breakeven price. It estimates mining costs of US\$120 a tonne in the early life of the mine, dropping to US\$90 a tonne over time.

Dairy industry

Fonterra lifts payout

Fonterra lifted its expected payout for the current season by 35 cents per kg of milk solids, to \$8.65. However, its forecast dividend remains unchanged at 10 cents per share. The cooperative's first half results are due on March 26.

The Australian newspaper reported on Feb 25 that several Chinese state-owned enterprises have been negotiating to back construction of new milk powder processing plant in NSW.

"They want to manage the risk that comes from their whole supply coming from NZ," Dairy Connect ceo Mike Logan was quoted as saying. "They recognise that NZ can't grow at the same rate that demand is projected to grow in China."

Ngai Tahu/Tainui jv on milking systems

The investment arms of the Ngai Tahu and Tainui iwi have partnered with private equity outfit Pioneer

Capital to purchase Waikato Milking Systems. The company designs, manufactures and supplies rotary systems to make milking more productive, herringbone systems to enable easier access for milking, and other components for dairy farmers. Pioneer has a \$40m mandate from the NZ Super Fund to identify fast-growing NZ companies, and has stakes in SLI Systems, the Moa brewing company, and health system software developer Orion.

Innovation

Izon moves to Oxford

Nano-particle analysis equipment-maker Izon Science is relocating its head office from Christchurch to the UK after securing \$2 million of new investment in a funding round. An Izon subsidiary has been operating at the Oxford Science Park since 2010, but the company's main operation will now be run from there.

Transport

Air NZ expects full year earnings to increase by more than 17% after announcing a record first-half tax paid profit of \$140m, ahead of forecasts of \$130m. It predicts normalised earnings before tax, a preferred measure, will exceed \$300m for the full year, compared with \$256m on that basis in the last financial year. Meanwhile, Qantas has announced a A\$252m first-half loss and plans to shed some 5,000 jobs, reduce its fleet size, cut major services, and save some A\$2b annually. The Australian federal government appears willing to allow changes to Qantas's foreign ownership restrictions, but has turned down the airline's proposal for a standby facility that would have allowed borrowing at sovereign interest rates. Virgin Australia also reported a first half loss, at \$A83.7m.

Loss of the Aratere inter-island ferry is weighing heavily on KiwiRail, which cut its forecast earnings and is in talks with the government to ensure it has enough cash to last the rest of the year.

KiwiRail posted a 21% drop in operating profit to \$37.3m in the six months ended Dec. 31, as a 0.7 percent gain in revenue to \$365.5 million was outpaced by a 3.9 percent lift in expenses. The SOE said it has renewed focus on cutting costs in new recruitment and major capital purchases and cut its forecast operating profit by \$20m to between \$90m and \$100m for the year to June 30. It estimates the outage of the Aratere ferry, which is undergoing repairs after its propeller fell off in November, will cost between \$20m and \$30m this financial year.

Electricity

Electricity companies announced half year earnings reflecting their respective degrees of exposure to dry hydro conditions in the North Island and strong hydro inflows in southern catchments.

Forsyth Barr is currently most bullish on Contact Energy, which it rates "outperform", despite delays in getting its Te Mihi geothermal plant commissioned, owing to modifications required to hot well pumps that are integral to its operation.

Contact chief executive Dennis Barnes criticised the complexity and very large number of tariff structures created by the country's 29 network line companies, saying they stifled innovative product offers.

The Green Party launched a policy to promote uptake of solar photovoltaic technology, offering a low interest rate loan of up to \$15,000.

Manufacturing

Moulded wood products maker Tenon is expecting to double year-end ebitda to US\$10m in the current financial year, as the US housing market recovers. The Taupo-based firm may also be in a position to make either its first dividend or first capital return to shareholders since its establishment from the shell of Fletcher Forests a decade ago.

Meanwhile, a report for MBIE by the economic consultancy Castalia seeks to reposition the role and significance of manufacturing to the NZ economy. It suggests many people are making educational and investment decisions in the belief that manufacturing is a shrinking area, when in fact it is changing to require more highly skilled workers, and to cover a mix of both physical production and intellectual services.

On top of existing policies, the report recommends the government should:

- develop an overarching manufacturing policy, "not to provide protection or further support, but to ensure coherence across various policy settings";
- positively communicate that the manufacturing sector is a vibrant and integral part of the economy;
- expand existing programmes that have shown demonstrable success;
- encourage more collaboration with research institutions and companies internationally;
- tailor export promotion to market circumstances;
- increase the supply of skilled workers, and
- continue reducing the procedural bias against New Zealand companies in government procurement.

ECONOMY AT A GLANCE

New Zealand economy

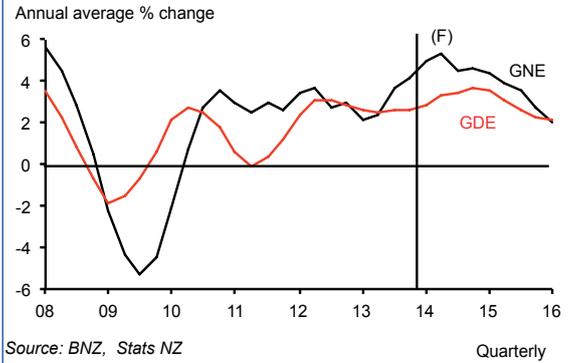
(% change on previous year
Calendar year except where indicated)

	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

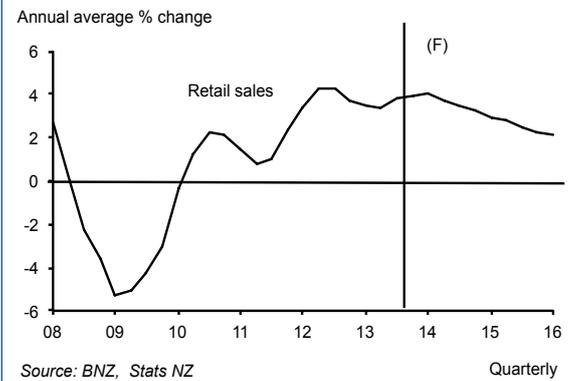
(1) Average for month of December

(2) Using current prices

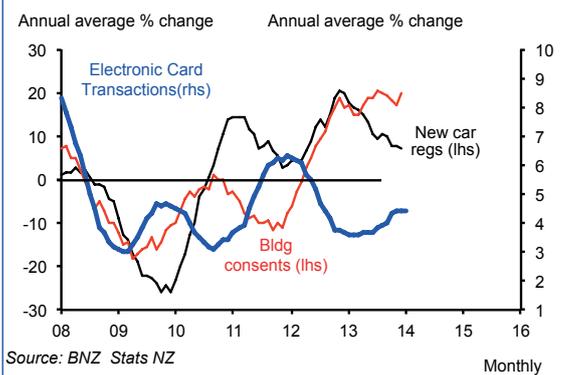
Economic growth



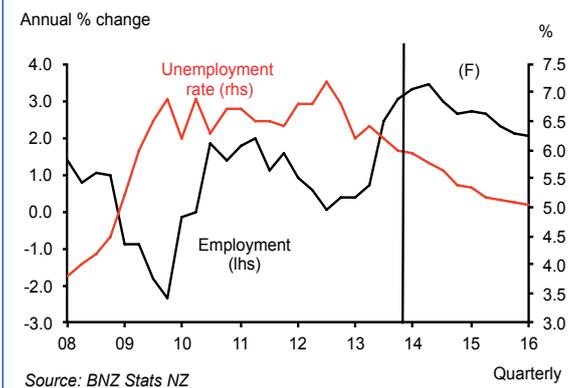
Retail sales



Partial indicators

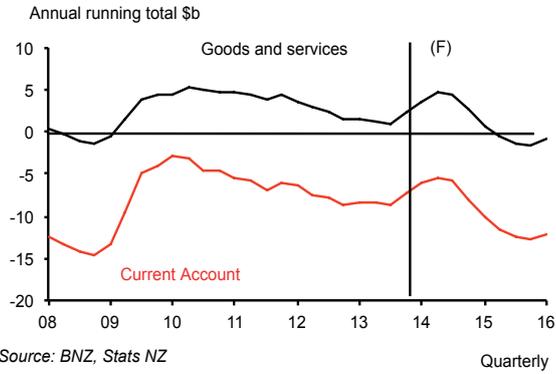


The labour market

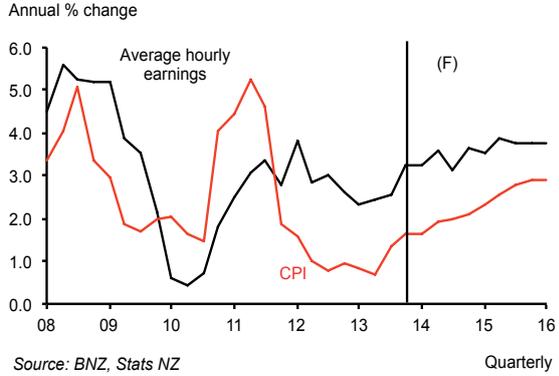


ECONOMY AT A GLANCE

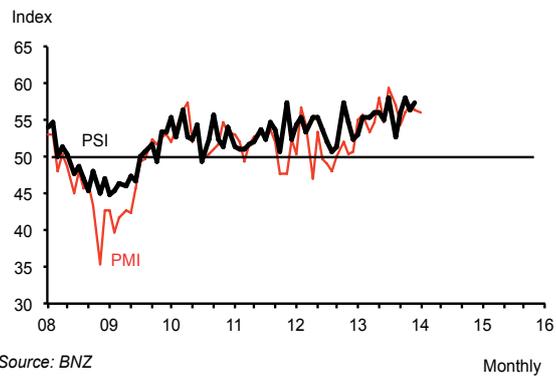
Balance of payments



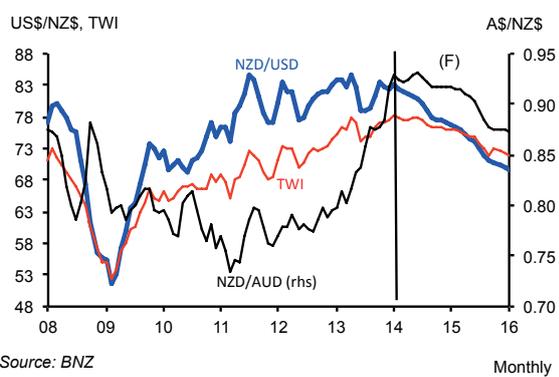
Inflation



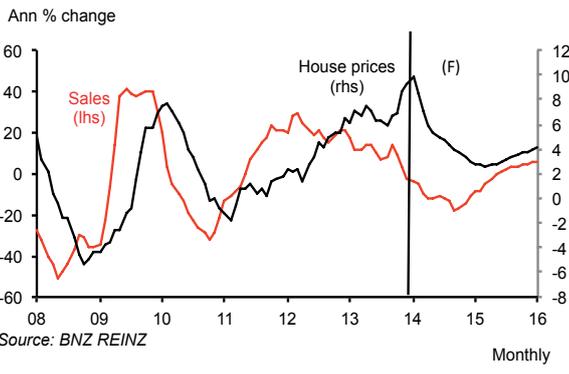
PSI and PMI



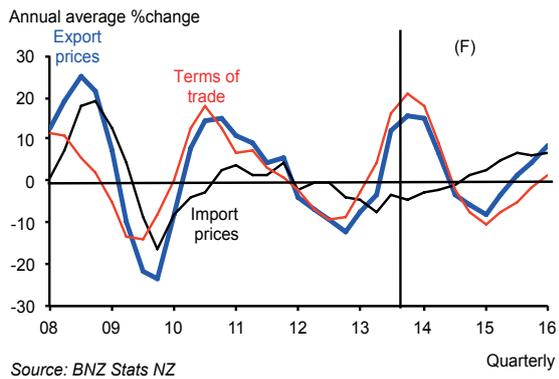
Exchange rates



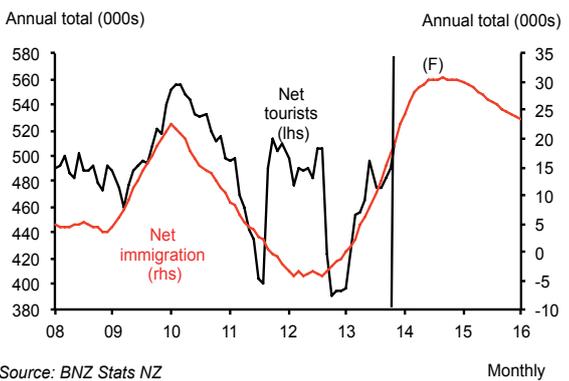
Housing market (three month average)



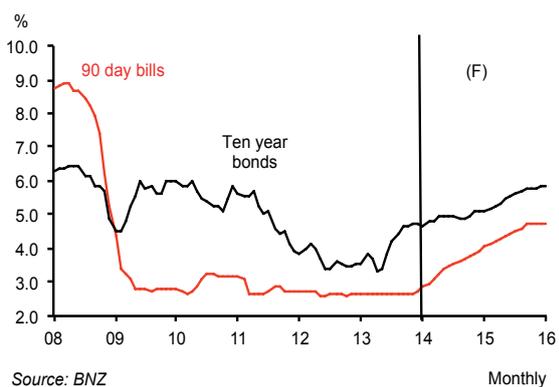
Terms of trade



Net migration flows



Interest rates



Continued from p9

Tertiary education

The Government will go ahead with its plan to reduce the size of university and wananga governance councils. At present, they comprise between 12 and 20 members. In future, they will be between eight and 12 strong. Specific representation categories will be removed, and it will be a

requirement that appointees have relevant governance capabilities.

QS World University Rankings, one of several closely watched benchmark indicators of academic quality, has confirmed The University of Auckland as the country's best-performing institution, making the top 200 in 29 of the 30 disciplines. Auckland ranked strongest in accounting and finance (24th), and made the top 50 in politics (26th), law (28th), education (34th), psychology (34th), linguistics (36th), English (37th), pharmacy and pharmacology (39th), modern languages (45th) and biological sciences (46th).

The highest position attained by any New Zealand university was 19th: University of Canterbury, for civil engineering, University of Otago for psychology, and Massey University for agriculture.

Construction

Fletcher Building posted a 5 percent gain in first-half profit as the high kiwi dollar against the Australian dollar constrained growth.

Profit was \$154m in the six months ended Dec. 31, compared with 146 million a year earlier, on a 2% drop in revenue to \$4.27b. Fletcher affirmed its guidance for the full year.

Operating earnings grew 7 percent to \$262m in the first half, driven by a 35% improvement from its NZ operations. Australian earnings fell 27% to \$77 million, with the decline exacerbated by the strong kiwi against the Australian dollar, which turned a 1% gain in sales across the Tasman into a 10% decline to \$1.7 billion in NZ dollar terms.

All up, Fletcher attributed \$206m of revenue decline to adverse for exchange movements, more than

offsetting a \$99 million gain in underlying sales.

Steel & Tube, which should be benefitting from the Christchurch rebuild, higher housing starts, and public infrastructure projects, turned in a 10% uplift in first half profit, at \$8m. It warned the steel products market remains highly competitive and while it held margins, its 6% lift in sales to \$211.7m was almost all volume growth.

In a further sign of steel sector competitiveness, Fletcher sold its Pacific Steel business to Bluescope / NZ Steel in a \$120m deal that will see Pacific Steel's Otahuhu mill close at the end of next year. Bluescope will invest around \$50m in new plant at its Glenbrook site.

Economic Indicators

Confidence highest since 1994

Business confidence rose to its highest level in almost 20 years in February, according to ANZ Bank's Outlook survey. A net 70.8% percent of firms were optimistic about general business conditions, up from 64.1% in December and the highest since March 1994.

Firms seeing a pickup in their own business activity rose to 58.5% from 53.5% in December, and expected profitability of 44.6% is up from 39.7%. Close to a third intend to hire new staff, which is the highest reading on that measure since 1992. Intention to make new investments was reported by 35.2% of those surveyed, up from 21.8% at the December reading.

The ANZ's composite indicator of business and consumer confidence would justify a forecast of 6% annual growth by mid-2014, but the bank thinks capacity constraints and a weak national balance sheet will rule that out.

Inflation heads to mid-point

Inflation will average 2.03 percent in the coming year, just above the mid-point of the Reserve Bank's target range, according to the bank's quarterly survey of inflationary expectations.

Economic growth expectations rose to 3.23% in the year ahead, up from the 2.96% at the last survey.

The 90-day bank bill rate is seen at 3.63 percent in a year's time from a level of 3.01 percent expected for the end of the current quarter.

Unemployment is expected to fall 5.62% in a year's time from a previous expectation of 5.86%. ■

RMA reforms - Winston to the rescue?

NZ First is in discussion with Environment Minister Amy Adams on resuscitating the stalled Part 2 reforms of the Resource Management Act. The issue is on the agenda for NZ First's March 3 caucus meeting, and the party is not commenting as matters are "under discussion."

Such a breakthrough might allow a version of Adams's cherished desire to widen the economic criteria in Sections 6 and 7, used to define the Act's sustainable development principle, and would be a signal that Winston Peters will not be an easy bedfellow for the Greens in a coalition government.