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Assessing the economic and political environment in New Zealand

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A defining week, politically and economically

This week's 10.7% fall in prices at the latest GlobalDairyTrade auction may come to be seen as a turning point for economic sentiment and the growth outlook. It was already weakening, but with the kiwi dollar now heading below US65 cents, assumed norms of just a few weeks ago are being up-ended. Meanwhile, Labour's questionable use of leaked real estate figures looks likely to give it a much-needed fillip in the polls.

Implications of the dairy price fall

Page 5

The weakness in dairy prices seen this week looks unlikely to reverse quickly. Global inventories appear to be full and not all product offered at this week's auction was sold. A Fonterra payout as low as $4.30 per kg/MS is in prospect, putting serious pressure on dairy farm debt.

Pressure rises for deeper rate cuts

Page 4

It seems hard to believe that conventional wisdom earlier this year was that the Official Cash Rate's next movement would be upwards. We now expect a full reversal of the 100 basis points increase in the OCR last year, with a fall to 2.5% by the end of the year in prospect.

Treasury looks to downside scenario

Page 4

Treasury Secretary Gabriel Makhlouf acknowledged even before this week's result that the economic outlook is now more consistent with its 'downside' forecast in the Budget, which forecasts GDP growth of just 0.7% in the year to March 2016. Note, however, that the TWI has already fallen lower than the Treasury forecast.

Is China weaker than we think?

Page 6

Global financial markets took heart from official Chinese data that suggests growth continues at an annualised rate of 7%. However, there is a wealth of external data to suggest China may be growing at more like 4% and that its industrial sector is flatlining.

What the Treasury really said about KiwiRail

Page 3

Anyone listening to news reports last week would have been forgiven for thinking the Treasury has recommended the closure of KiwiRail. Its advice to the govt is more nuanced. The rail system is a network. Shut inefficient parts and the network would suffer, it says.

Labour and the TPP

Page 2

The Labour caucus has been debating its stance on the TPP. Signs are that it will find a way to support the controversial trade and investment pact, which appears to be close to conclusion.

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A long week in politics

The last week has been a pivotal one for NZ politics and economic sentiment. The Labour Party has struck an unusually effective blow to the govt in Auckland with its risky revelations on foreign investors in real estate. But what really changed the game was the ugly result in the GlobalDairyTrade auction. A much lower dollar, interest rates and growth are in prospect over the year ahead. The 'rock star economy' is a fast-fading memory.

Auckland housing – risky but winning politics for Labour?

Labour's decision to release the leaked data about Chinese house buying in Auckland caught the govt on the back foot. That in itself was surprising since Labour had been hinting for a fortnight that they had something big coming on housing. The release was driven by Andrew Little and it achieved its goal, which was to get Labour at the top of the news agenda on an issue where it could expect a poll impact. Too many of Labour's initiatives in recent times have failed to connect with voters. By focusing on both the hot button Auckland issue of housing and the hardy perennial concern over foreign, especially Asian investors, Labour calculates it will achieve a poll boost, notwithstanding the outbursts of indignation over the way ethnicity has been exploited. It seems most Labour loyalists are holding their noses on that one, accepting the leadership's line that the issue is real and must be capable of being debated.

This is just as it went for Don Brash when he made his "Orewa speech" in 2004. It was racially divisive, but galvanised support. For once, the govt appeared unprepared, with the House in recess, the Prime Minister taking leave in Hawaii and no weekly Cabinet meeting. The govt is also trying to walk a very fine line between populist public opinion and the need to preserve its strong relations with China and its own very valuable Chinese donors.

The Oct 1 requirement for all overseas property buyers to supply an IRD number and an NZ bank account looks increasingly like an inadequate response to the issue, which has seen a range of commentators, including bank economists and real estate commentators, suggesting stamp duty or restrictions like Australia's to new homes only for foreign buyers could be justified. Notably, no govt minister is willing to comment publicly on whether a link exists between Auckland's house price inflation – running at 26% in the year to June, according to this week's REINZ figures – and foreign investors.

In the process, the fundamental issue in the Auckland property market – under-supply – risks being forgotten.

Labour and the TPP

Ironically, the Chinese house buying issue flows into the Trans Pacific Partnership and Labour's attitude to it. Though the party is under intense pressure from the EPMU (and its new merged partner, the Service and Food Workers Union) to oppose the TPP, it looks likely that the caucus will find a way to support it. But a potential deal-breaker could be if the TPP repeats the Korean Free Trade's restriction on introducing new restrictions on foreign investment. NZ's FTA with China, contrary to some commentary this week, does not do this – although it does prevent discriminating against one foreign investor over another – and Labour will want to see the same freedom on its ability to regulate should it become the Government.

Meanwhile, reports in US media suggest TPP endgame negotiations are progressing, although Canada's resistance to opening its dairy and poultry sectors could yet cause it to leave the 12-nation pact. Elsewhere, reports suggest tensions are focused on Australian concerns over American pharmaceutical patent rules, Peru's rain forest management, Chinese components in Vietnamese textile exports, labour organising rights in Vietnam and Mexico, and SOE governance in Vietnam. Rice and sugar are key issues for the US, Japan, Canada and Mexico.

A meeting of trade ministers in Hawaii from July 29 to 31 will be crucial to reaching a conclusion.

Govt in the provinces

While NZ First may have felt Labour was on its patch with claims about Chinese investors in real estate, the govt is quietly concentrating on shoring up regional support, where NZ First showed its potential with the Northland by-election win. This week Steven Joyce has been in Winston Peters's new seat. While the NZ First leader was busy promoting what is actually an existing govt proposal, to allow provisional tax to be paid on a PAYE basis, Joyce was talking economic development. Armed with economic surveys that have been prepared on various parts of provincial NZ, Joyce is convening meetings including local govt, iwi, business and education leaders and, he says, getting them to talk to each other.

The activism in the provinces contrasts with what looks like a freeze in terms of the govt's attitudes to Auckland. Letters between Transport Minister Simon Bridges and Finance Minister Bill English, and Auckland's Mayor, Len Brown, which were published this week, detail why the govt won't fund

Brown's transport investment proposals without a full review. It expects that review to take a year. In other words they won't do anything till the next mayoral election which they both hope and assume Brown will lose. Phil Goff remains the most talked up potential candidate to take over from Brown.

Groser's 'unambitious' carbon target

The govt published its Intended Nationally Determined Contribution to the global effort to combat climate change during the period 2021 to 2030 ahead of Tim Groser's attendance at ministerial meetings in Paris this week. The countdown to the global summit there in December is on and it was judged important to make a realistic, if not especially ambitious, target public at this point. Reading between the lines of the Cabinet papers, Groser is juggling numerous moving parts and is reluctant to put too generous an offer on the table in case the final outcome moves against NZ's particular interests.

Most important to NZ is whether the land use, land-use change and forestry (LULUCF) rules, which allow NZ to 'bank' carbon credits from plantation forestry, can be carried forward. If they can, the govt's critics claim that NZ could meet its newly stated target of a 30% cut in emissions against 2005 levels without enacting any new policy at all, while actual emissions per head would rise and surpass falling per head emissions in the US by about 2025. If LULUCF isn't available, NZ's task becomes much tougher because of the relative cost, compared with other countries, of cutting emissions, largely because agricultural emissions are such a large chunk of NZ's output. While research into reducing methane and nitrous oxide emissions is promising, there are no guarantees.

While environmental critics enjoy deriding NZ as a laggard in the global negotiations, that belies the extent to which NZ has been influential in setting the terms of the Paris talks, including creation of the INDC approach.

Reports from the local carbon market indicate supply is tightening, with sellers unwilling to part with credits at current bid levels of around $7 per tonne. Groser also foreshadows a review of the ETS this year.

What the Treasury really said about Kiwirail

Labour's Phil Twyford struck media pay-dirt on KiwiRail issues as well as Auckland real estate. He spun a story that the Treasury was recommending the closure of KiwiRail because of the high level of ongoing govt subsidy it requires to operate at break-even. This was widely reported without serious analysis.

However, the report is a nuanced discussion of the rail system's challenges and contains no concrete recommendations.

Rather, it invites the Cabinet to commission an 'arms-length' study of rail's economic future, a process that might be expected to take a year and which would help inform both policy decisions and the stunted public debate about the viability of rail for NZ.

In short, the Treasury lays out a conundrum: the rail system is a network, not unlike electricity or telecommunications. That makes it difficult to wring substantial efficiencies from segments that don't operate profitably in their own right, while militating against the closure of those segments because of lost benefits to the wider network.

That creates stark choices for the Crown as shareholder. Either it accepts a long term, ongoing level of subsidy that keeps the network largely intact, or it closes the whole network down.

At present, the Treasury says the rail system has a 'net social cost' of between $55m and $170m annually. Since 2010, the Crown has provided an average of $213m annually to fund KiwiRail during its Turnaround Plan phase. The original plan was overly ambitious, but has produced commercial rigour and better understanding of the business.

Unaddressed in the advice to Cabinet is whether Kiwirail should be carrying the cost of the rail network on its books, since truckers, shippers and airlines don't carry the cost of roads, ports or airports on theirs.

The push to the centre

The trend to more centralised decision-making, at the probable expense of local democracy, has been apparent for some years, the most obvious example being the sacking of the Environment Canterbury board with no return to local elections for ECAN until 2019, as announced last week.

Likewise, Environment Minister Nick Smith is making plain the desire to create more standardised national decision-making and priorities by using existing elements of the RMA to create National Policy Statements and National Environmental Standards.

Striking also has been the tenor of official advice in this area in recent months. The Productivity Commission's interim report on land use and post-election Treasury advice on RMA reform, released in a document dump last week, dwell at length on the difficulty of marrying local politics with 'good' decision-making.

The logic is hard to fault. Bloodless bureaucratic decisions are more likely to weigh objective costs and benefits, but the govt will need to take great care not to let this mindset over-ride political commonsense. NZ is a highly democratised country, often with costs and delays that can hold back economic growth and prosperity. However, characterising such democratic institutions as being unable to be wise, or to operate in the national, or public interest is a slippery slope for a third term govt, impatient with constantly hitting the same locally determined roadblocks. That way lies local alienation, unless handled with skill and care.

Foreign investment

Steven Joyce is to run a "NZ Investment Attraction Strategy" for foreign investors to help find what he says is between $160b and $200b of business investment required to meet the govt's goals for boosting exports and r&d spending.

A taskforce involving NZTE, MBIE, MFAT, Callaghan Innovation and the Treasury will lead the work. There will be "targeted consultation with the private sector", run through his office.

The strategy will pursue goals in three areas:

- attracting high-quality foreign direct investment in "innovation enhancing" sectors, "with a potential direct economic impact of $5 billion over three years";
- encouraging multinational companies to locate r&d facilities in NZ, with a target of 10 new offshore companies locating such activity in NZ over the next five years;
- lifting NZ's pool of "smart capital" by convincing individual investors and entrepreneurs to live in the country, targeting actual and committed capital from migrant investors and entrepreneurs of $7b within three years. This includes a review of migrant visa categories "to enhance their attractiveness to high-quality applicants, tailored promotional events in key offshore markets to secure investors and entrepreneurs to NZ, and the capacity to provide a responsive, personalised service for high-value applicants to facilitate further investment."

Procurement opportunity opens

NZ has finalised its accession to the WTO's Agreement on Government Procurement (GPA), with effect from next month. NZ businesses will have guaranteed access to bid for an estimated US$1.7 trillion in annual overseas govt contracts through joining the GPA.

Treasury looking to 'downside' forecast scenario

Even before this week's slew of negative economic news, Treasury Secretary Gabriel Makhlouf was acknowledging that his dept is now looking more to the downside/lower growth scenario set out in the May Budget, following the recent string of weak local and global economic indicators and associated confidence-sapping events. The biggest difference between the Budget's 'main' forecast and its 'scenario one' weaker forecast is in growth over the year to March 2016. **Nominal GDP is forecast to grow 3.3% on the main scenario, but just 0.7% in the more pessimistic scenario** involving a lower trough in the terms of trade and low global inflation. Notably, the more pessimistic scenario assumed the TWI would remain above 70 – it had slipped below to 69.15 already by the end of this week – and assumed no cut to the OCR, which as at 3.5% at the time the forecasts were finalised, in April. The extent of the change is, in itself, an indication of how swiftly the short to medium term outlook has changed. Under the downside scenario, growth still picks up in 2017 and 2018, thanks to an export competitiveness boost, although **the govt remains in fiscal deficit through election year.**

Pressure on for big OCR cuts

Next Thursday's official cash rate review by the RBNZ will almost certainly involve a further 25 basis point cut to 3%. This week's dairy auction heaps pressure on the RBNZ to cut. While it doesn't publish a GDT forecast, other indicators it uses suggest that dairy prices are around 16% below where the RBNZ had expected in the June MPS.

Our expectation is that the OCR will return to 2.5% by October, reversing last year's 100bps increase. Current market pricing sees a low in the OCR of around 2.56% by Q1 next year. AMP Capital has taken the bull by the horns and suggested the OCR could go as low as 2%, although the RBNZ would be in no rush to do so. Key to the central bank's concerns is returning to 2% annual inflation, in the middle of the 1% to 3% target band, after a prolonged period below that. This week's CPI outturn for the June quarter, was notable for a reversal from recent trends. Tradeables inflation, which had been subdued, showed its biggest quarterly rise since Sept 2013, at 1%, while non-tradeables, which have been responsible for most of any recent weak inflationary impulse, rose just 0.1% in the June quarter, the smallest movement since Dec 2009. We still see inflation pushing toward 3% through next year, underpinned by the slumping currency. The September monetary policy statement becomes a crucial update point for views about next year.

Dairy price plunge – implications

Wednesday night's GlobalDairyTrade auction was extremely weak, with prices falling for all major products. The fact that not all inventory was sold at this auction suggests there could be a further deterioration at the next event, the week after next.

While the GDT index, which averages prices, fell 10.7%, the news was worse for whole milk powder prices – Fonterra's most important product by volume – which fell 13.1%, from an already very low level. Some prices weren't published, as product was sold at the opening price, which happens rarely and underlines the weakness of this auction.

Aggregate prices are now estimated to be at their lowest level since 2002. Given that dairy exports accounted for nearly a third of all goods exported last year and nearly a quarter of all exports, there will inevitably be an impact on economic growth rates. While the automatic stabiliser of a weaker currency is kicking in, the fall to date is insufficient to offset the scale of the fall in dairy prices. A wider than forecast current account deficit is one likely result. The near term dairy price indicators are poor, with the global supply chain apparently very well stocked for now. This result also pushes our forecast for the 2015/16 Fonterra payout from $4.70/kgMS to $4.30. Note, however, that $4.30 is a best estimate of the middle of a very wide range of possible outcomes. The final 2015/16 price is still 12 months away. However, it is well below the cost of production for many NZ dairy farmers and low prices for two seasons in a row will be a major challenge for all farmers. The Treasury is focused on the impact it will have on the 10% of dairy farms carrying around a third of the sector's total debt.

Fonterra, which announced 523 job losses for annual savings of $60m on the same morning as the GDT auction result, may choose to update its forecast for the current season out of cycle, perhaps before the end of this month.

Currency outlook

The marked deterioration in economic indicators and soft inflation is forcing a rethink of the track for the NZ dollar, which now appears likely to fall further than previously assumed.

After the RBNZ's decision to cut the OCR in June, we saw a follow-up 25bp cut in July a done deal, and gave another move in September a 50% chance. We now expect three further cuts: 25bps in July, September, and October.

We now forecast the trough in NZD/USD to be 0.60 in Q1 2016, materially deeper and slightly earlier than previously envisaged. We anticipate the RBNZ will deliver both July and September rate cuts with a prominent easing bias, which will keep NZ rates depressed.

However, the biggest influence driving the US/NZ dollar cross-rate lower will be the commencement of the US Federal Reserve's tightening cycle, which is still expected towards the end of calendar 2015. That will push the US dollar higher.

The current correction already ranks the sharpest, on a cyclical basis, that NZD/USD has seen since the 1985 float, with the exception of the extreme conditions during the GFC. Our current forecasts assume conditions similar to the corrections in 1996 and 1998, which and saw the kiwi dollar fall roughly 30%.

The short term fair value model for the NZD/USD cross indicates a 0.70 – 0.76 range, compared to spot at 0.6550. A lower NZ-US rates spread, lower commodity prices, and higher volatility by year-end takes that range to a 0.65 – 0.71 fair-value range, compared to a year-end forecast of 0.62. This degree of undershoot would be consistent with historical trends showing momentum-driven NZ dollar downturns tend to be deeper than fundamentals would justify.

Akld house prices still rising fast

The latest REINZ statistics show a further surge in Auckland house prices, up 26% in the year to June. While legislation requiring IRD numbers and local bank accounts for foreign buyers may yet put the brakes on some of the current activity, the govt may yet regret not starting to collect foreign investment data. Budget advice released under the OIA last week shows the Treasury believes foreign ownership of NZ real estate is as low as 3% of the total and that costs of collecting buyers' origin would outweigh any benefits, especially in the absence of any clear policy objectives beyond creating a counting mechanism.

That is sound public policy advice, but is tin-eared politically. Auckland's housing problem remains one of supply, but in the absence of hard facts, attacks such as Twyford's threaten to fuel racially divisive sentiment.

Fiscal outlook

The NZ govt reported an operating surplus in the 11 months to May 31 of $1.18b, improving the likelihood of a small budget surplus on an OBEGAL basis for the fiscal year to June 30, versus a small deficit forecast in the May Budget. Tax revenue rose 8.4% to $61.24b in the 11-month period, and was $401m ahead of forecast, with unexpected gains in company and PIE tax offsetting softer goods and services tax.

How weak is China's economy?

Chinese equity markets might have been expected to continue their nascent recovery after unexpectedly strong official GDP figures this week suggested China remains on track for 7% annual growth.

However, that strength appears to have been taken as a signal that there will be less either monetary or fiscal policy stimulus from Beijing than many had assumed.

Andrew Hunt, an economic adviser to international institutional investors whose views on the global economic outlook will form part of this month's Hugo Group 5 year forecasts, believes China is in far weaker shape than official statistics and conventional wisdom among financial market observers suggest.

He started from a premise that the 'true' rate of annual GDP growth in China is more likely to be between 3 and 4%. That is caused largely by a dramatic fall in the last year in capex by local govts, which he calculates have accounted for some 90% of all growth in Chinese domestic capex since 2009.

Hunt posits that Chinese manufacturing is probably in mild recession at present and that with a country debt to GDP ratio now above 275%, even strong trade figures will be significantly offset by debt servicing costs, pushing up China's current account balance.

The central govt is also estimated to be running a budget deficit at around 8.5% of GDP.

If this gloomier than usual view of China's current cirrcumstances proves accurate, Hunt questions whether the presumed ability of the Chinese authorities to continue to manage desired economic outcomes is as strong now as it has been in the past.

At that size of budget deficit, the capacity for fiscal stimulus to revive activity would be limited, while the Chinese central bank (PBoC) has had only limited success in stimulating activity despite several monetary policy easing actions in recent months. Private credit expansion, which exploded post-2009, has not revived following. China is more likely to be on a 'multi-year recuperation' track than to bounce back quickly.

The implications for the world economy, which was buoyed post-GFC by the strength of Chinese activity, is clear. Commodity price falls of the last year are likely to be sustained, absent a sharp recovery in some other large economy. The steady extension of the timeline for US interest rate rises, along with increased expectation that such increases will be smaller and more gradual than expected at the beginning of the year, suggests a relatively lacklustre outlook, especially for commodity export-dependent economies like Aust and NZ.

IMF throws its weight around

The International Monetary Fund confounded observers of both the Greek bail-out and the US Federal Reserve's plans for interest rate increases this week with its criticisms of both.

The IMF may not have planned its intervention after the 11th hour conclusion of the bail-out deal hammered between Greece and the EU over the weekend. However, the leak to several quality media of an IMF report suggesting Greece would be unable to meet the terms of proposed austerity packages and will require substantial debt relief to get back on its feet was unhelpfully timed from the perspective of European leaders who brokered the deal. However, the IMF is almost certainly right. The push, especially by Germany, to force unpalatable changes on Greek PM Alexis Tsipras, smacks of a determination to force regime change rather than economic principle. The growing talk of fresh elections in Greece, following passage of the bail-out deal despite opposition from within the ruling Syriza party's MPs, suggests that is likely and that the Greek drama has some distance to play out yet.

On US interest rate rises, the IMF warned that the resulting expected rise in the US dollar could leave the American economic growth rates "severely debilitated" and have impacts across emerging markets.

Australian outlook mixed

The Aust economy shows a widening contrast between relatively weak medium term non-mining intentions and a near term improvement in other performance indicators. The June Monthly Business Survey results showed business confidence at its highest level since the Abbott administration came to power in late 2013. The improving trend in business conditions is also intact. At +11, it is significantly above the long run average of +4.5. Capacity utilisation has risen to its highest level since early 2012 with both capex and new orders now above long run averages.

However, hiring intentions remain weak and prevailing investment hurdle rates of above 13% are very high. Consumers remain very cautious.

The pattern of recovery is still very much driven by NSW and Victoria, with the mining states lagging. House prices continue to accelerate in the former and deteriorate in the west. Current forecasts for Aust growth remain at 2.4% for 2014/15, 2.6% for 2015/16 and 3.0% in 2016/17. Unemployment is now expected to peak slightly lower than previously forecast, at 6.25%.

Earthquake policy

A review of the EQC's operation proposes doubling the automatic insurance sum for buildings to $200,000, while exiting contents insurance and claims processing.

The govt's "preferred reform package" for EQC, currently out for public consultation, includes: private insurers authenticating and managing claims on EQC's behalf with terms better aligned to usual insurer practice; building cover to include site work; doubling the cap on building cover to $200,000 while land cover would apply only where rebuilding is not possible; a standard building claims excess of $2,000 from $1,000 per claim; an end to contents insurance; premia to reflect scheme running costs. The Natural Disaster Fund and Crown guarantee would remain.

Meanwhile, **Southern Response,** the Crown entity carrying AMI's quake liabilities, is expected to seek release of the remaining $500m of uncalled Crown capital available to it, to meet outstanding claims.

Independent actuary Finity Consulting increased its estimate for Southern Response's insurance liabilities by $328m to $2.69b, pushing it to a shortfall in available funds of $399m before accessing uncalled capital.

Benefit increases

The Treasury advised that Budget increases in welfare benefits in 2016, the first increase higher than the inflation rate in more than 40 years, would have little or no impact on beneficiaries' willingness to seek work. New requirements on parents returning to work, higher minimum hours requirements and increased childcare support would likely offset any such disincentive to finding employment.

Budget papers released last week detailed the Treasury's concern about "a growing gap between the take-home incomes of beneficiary households and those of low to average wage workers" and the need, in the interests of children, to strike a better balance as beneficiary households fell further behind working households.

Labour market

Changes to the way 'zero hour' contracts opperate have been announced, although employee advocates criticised the failure to meet a previous promise to "abolish" them. The proposed changes will prohibit unfair practices including:

- employers not committing any hours of work, but expecting employee availability when required;
- cancelling a shift without providing reasonable notice or compensation;
- putting unreasonable restrictions on secondary employment;
- making unreasonable deductions from employees' wages.

Contracts will need to record any agreement on a set number of hours.

A **recruitment firm survey of 1,300 NZ employees** has round two-thirds of workers would consider leaving their current job if offered a comparable one with greater flexibility.

Securities markets

NZX strongly opposes a bid by share trading platform Unlisted to be exempt from new licensing requirements, fearing its lack of basic shareholder protections could tarnish the reputation of the country's capital markets.

Unlisted is petitioning Commerce Minister Paul Goldsmith for an exemption from being licensed by the Financial Markets Authority, as required by the Financial Markets Conduct Act. NZX sees the application as an opportunity to review Unlisted's operation outside the regulatory framework.

Economic indicators

Business confidence fell to its lowest in three years in the second quarter, with a net 5% of firms in the NZIER quarterly survey of business opinion expecting general business conditions to improve, down from 23% three months earlier. On a seasonally adjusted basis, net optimists fell to 7% from 20% the previous quarter.

A net 2% were pessimistic about expected profitability, down from 12% net optimism in the previous quarter. The survey doesn't cover the agricultural sector, although falling dairy prices were a significant factor in weaker sentiment. **Inflation expectations were their weakest since 2009.**

Consumers remain net positive about economic conditions, but sentiment slipped sharply in June, to a near 3 year low. The ANZ Roy Morgan consumer confidence index fell to 113.9 in July from 119.9 a month earlier, with the current conditions index slipping 2.6 points to 119 and the future conditions index sliding 7.7 points to 110. While households were still relatively upbeat about their own finances and more optimistic about conditions in the medium term, the outlook for the wider economy in the coming year was net 2% pessimistic. **Manufacturers were more optimistic in June** than they were a month ago, in part because of the export return boost implied by the substantial fall in the NZ dollar. The PMI rose to a seasonally adjusted 55.2, the highest level since February, up from 52 in May and the 33rd

consecutive month of expansion. All components of the index were in expansion, with readings above 50. Production returned to expansion last month, with an index reading of 55.7, from April's 49.1. Employment rose to 54.2 from 51.7, new orders climbed to 58 from 52.3 and deliveries increased to 55.1 to 52.7. Finished stocks was the only measure to show a decline, slipping to 51.2 from 55 in April.

Spending on electronic cards stalled in June as declines in apparel and durables outweighed increases in consumables and hospitality. On an annual basis, core retail spending, excluding transport fuels, rose 6.1% in the year to June.

Agricultural commodities

A 10% fall in the NZ dollar against the US dollar over the nine months to June 30 helped raise returns for the current beef and sheepmeat export season, despite falling demand for sheepmeat from Chinese consumers, offset by greater demand from China for NZ beef. Total beef and veal export tonnages rose 8.8% for the nine months, according to Beef + Lamb NZ statistics. The value of beef and veal exports was up 37.2% to $2.532 million, based on a 26% increase in per tonne value of $7,439. Lamb volumes were down 4% for a 0.3% fall in revenues, bolstered by a 3.9% improvement in average price per tonne, at $8,646.

Wool prices eased in the first sale of the 2015/16 season. Clean 35-micron wool declined to $5.75/kg from $5.80/kg at the last auction of the previous season, on June 25, according to AgriHQ. The price for lamb wool was unchanged at $7.20/kg.

Z Energy/Chevron merger

The Commerce Commission is targeting Dec 18 for a decision on Z Energy's application for a $785m take over of the wholesale and retail transport fuels business of Chevron NZ, operating the Caltex brand and supplying the Challenge! chain of petrol stations.

The Z application argues the existence of two other strong, mid-stream distributors – BP and Mobil – means there will be no lessening of competition in the markets covered: aviation, marine, truck stops, commercial wholesale and retail fuel sales.

It does not directly address the fact that BP and Z will control around 80% of the transport fuels market between them if the Z/Caltex merger goes ahead - a level that triggers the competition regulator 's market dominance test thresholds. The application is also opaque on whether Caltex's current business model, which prevents localised price-setting because of its centralised management structure, will remain long term. Z has said it won't change Caltex outlets to Z branding, preferring the option of differentiated offerings. However, the application leaves open the potential for Caltex to leave the AA Smartfuel loyalty card scheme that BP also runs, should the FlyBuys scheme, 25%-owned by Z, make a better offer.

The application says competition would not be lessened for reasons including: two wholesale suppliers (and possibly Gull in some areas) would still be available; aviation fuel customers have market power at Auckland airport because of shared infrastructure and BP and Mobil are competitors; Caltex is a limited player in marine fuels; truck stops are highly competitive, although buying Caltex truckstops would allow Z to offer a better fuel card proposition and more extensive national network; there are only 5 instances nationwide where there wouldn't be a Z/Chevron competitor within 5km; 14 retail brands will continue to operate (including supermarket brands).

Venture capital

Crown-funded start-up investor, the New Zealand Venture Investment Fund, has broken even or made money on 21% of 62 investments it's exited since establishment in 2002. Of these, just 13 have returned more than was originally invested, with four achieving returns of more than 3x initial investment.

NZVIF's $40m Seed Co-Investment Fund, which backs early-stage firms alongside angel investors, has broken even or better on five of 36 exits. The Crown will continue its $100m underwrite NZVIF until 2018, but it will drop to $60m from then until 2022.

Private equity

Rangatira Investments bought 70% of lab equipment firm Bio-Strategy for an undisclosed sum. Bio-Strategy sources products from high-tech manufacturers which it then supplies to clients across Aust and NZ, including hospitals, Crown Research Institutes and police forensic units, while providing ongoing service.

Rangatira has been looking for further investments, saying it prefers profitable, middle-market businesses, which generate revenue of at least $20m.

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