

### Ardern seeks to reset

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After a politically disastrous few weeks, the govt started to reset the agenda for election year with a major change in immigration policy, a more conciliatory relationship with Auckland's new mayor, an attempted olive branch to farmers, and a vow to pare back its agenda to focus on core economic issues and ditch policy distractions next year.

### Polls still point to change

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While Labour is showing that it won't go down without a fight, the polls continue to point to a change of govt, although National is not cracking 40% support in a consistent way. Given how much is going National's way, it should arguably be doing better. Christopher Luxon continues to struggle to connect personally with the electorate.

### Treasury joins the recession party

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The Treasury has joined most other economic forecasters in expecting a short, shallow recession that is expected to take hold in the second half of next year, coinciding with the election. In part, this reflects a half year fiscal and economic update that assumes a strongly contractionary fiscal stance as covid spending unwinds over the next year.

### Risk of recessionary momentum

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The HYEPU identifies a range of downside risks to the forecasts, mainly from a weaker global economy. However, there also appear to be significant risks of an acceleration in the already dramatic fall in house prices, coinciding with high interest rates and rising unemployment. A harder landing than that painted in the HYEPU cannot be discounted.

### House prices

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Weakness in residential house prices continues in most parts of the country, with some signs of acceleration, with bank economists moving from a conservative view earlier in the year to predicting nominal average falls from the peak in late 2021 of as much as 25%.

### Legislative push

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The govt pushed hard over the last month to introduce a large amount of new legislation and to make progress on bills already in progress. We summarise the very large number of updates that have emerged over that time. Legislative priorities are likely to be reset over the Christmas/New Year period. Parliament sits again on Feb 14 and the first Cabinet meeting of the year is on Jan 25.

### Merry Christmas and thank you

We wish all members of The Hugo Group a merry Christmas and a happy new year. After what has effectively been the third year of covid-affected trading, not to mention life as we know it, we are sure that everyone is ready for a break ahead of the challenges that 2023 will inevitably bring. Thank you for your support. Please always feel free to tell us what you most would like to know and hear about in these challenging times.

### Labour tries a narrative change

After weeks of wallowing in the legislative debacle of three waters, embarrassing distractions a la Willie Jackson, boring-but-significant desk-clearing such as advancing RMA reforms, a rising moral panic over youth crime, and a slide in the polls that looks irrevocable, there was a **pre-Christmas burst of retooling from the govt.**

**A semblance of peace broke out in Auckland** over transport plans, with Wayne Brown saying nice things about reorientation to the eastern busway investment and appearing open to keeping light rail plans going.

**The immigrant labour spigot**, begrudgingly loosened in recent months, **was turned on with gusto**, presumably as much to moderate wage inflation expectations as to placate employers ahead of the Christmas break.

Jacinda Ardern also agreed in various interviews **that the government had lost its way** this year, was trying to do too much, and would **refocus on a tighter agenda next year.**

Ministers are being asked to reprioritise over the break. The muddled and poorly defended **TVNZ/RNZ merger** could be a casualty. It's debatable whether there is enough time in the political calendar to advance the **social insurance scheme** where the early tri-partite coalition of support has fallen apart since Business NZ walked away. **Hate speech** legislation feels like an unneeded minefield.

**RMA reforms and the now toxic three waters reforms will, however, remain on the agenda.**

At Fieldays, the bones of a **compromise with farmers on climate change policy** emerged. The most important signal was a willingness to think again - this would always have happened, but the timing was careful.

The half-year fiscal and economic update and Budget Policy Statement (see p.6) also helps set the scene for election year.

### Polls still point to change

Whether all these initiatives have any capacity to compensate for the impacts of a recession that is likely to bottom out at about the same time as the election next year is another matter.

With predictions like ASB's – that house prices may

fall an inflation-adjusted 40% from their 2021 covid peak – floating around, business and consumer confidence is very likely to improve.

New polls from Kantar for TVNZ, Roy Morgan and Curia still point to a change of government next year.

**The gap between the centre-left and centre-right parties combined is still not absolutely decisive** and National has yet to firmly crack 40%-plus support.

While **National's easy win in the Hamilton West by-election** is being talked up as a harbinger, it was **hardly a surprise.** Labour won the seat in the 2020 landslide but it was National's prior to that.

The latest Roy Morgan Poll recorded National as up 7 points from the last in the series to 39% with Act down by 1.5 points to 11%. **Support for Labour dropped 3.5 points to a sickly 25.5%** and support for the Greens was down 3.5 points to 12%. This is the lowest level of support for Labour in this poll since mid-2017, when Andrew Little was still party leader.

Support for Te Paati Māori increased by 1 point to 4%. NZ First was unchanged at 3.5%. The poll was conducted throughout Nov.

In the Roy Morgan poll 35% (down 7 points) said NZ was 'heading in the right direction' compared to a record high 55% (up 5 points) who said it was 'heading in the wrong direction'. The ANZ-Roy Morgan Consumer Confidence Rating for NZ was down 4.7pts to 80.7 and is now below the latest consumer confidence figure in Australia of 80.8.

### Kantar poll

The latest 1News Kantar poll put National's support on 38%, up 1 point since the last in the series. Labour was down 1 point to 33%, Act up 2 to 11%, and the Greens steady on 9%. NZ First rose 1 point to 4% and Te Paati Māori were steady on 2%. For preferred PM candidates, Jacinda Ardern dropped 1 to 29%, while Christopher Luxon was at 23% (up 2). The poll was taken between Nov 26 and 30.

TOP registered 2% and would enter Parliament if leader Raf Maji can win the Christchurch electorate of Ilam, where he polled second in the 2017 election.

National is relying on the fact that **TOP's land and wealth tax plans would disadvantage generally the asset-rich, elderly Ilam constituency.**

The poll asked: "Do you think during the next 12 months the economy will be in a better state than at present, or in a worse state?" 18% responded 'better', 21% 'same' and 61% 'worse'. In Sept, 36% responded 'better' and 38% 'worse'.

### Curia poll

The latest **Taxpayers' Union/Curia** poll recorded

### CEO Retreat 2023

The next Hugo Group CEO Retreat is scheduled to run from **dinner on Thursday September 7 to lunch on Saturday September 9.**

The programme will again bring members a mixture of actionable business insights and the traditional Retreat "deep dive" into domestic and global affairs.

**Mark your calendar now.**

Labour slipping 2 points from last month to 33% – its equal lowest level in this series – National was up 1 point to 39%, which is its equal highest level. ACT and the Greens are steady compared to last month on 10% and 8%, respectively. Te Pāti Māori was on 3.5% and NZ First on 2.9%.

## Immigration politics

The govt announced **major changes in immigration settings allowing nurses, specialist doctors and midwives immediate residency**. Those medical professionals are among 10 additional professions added to the Green List immigration category. Along with changes to the Green List, **all teachers are now in the work-to-residence pathway, along with drain layers, motor mechanics and other roles**. There is also a new **temporary residence pathway for bus and truck drivers**. The govt will also start reissuing visas for Post Study Work Visa holders locked out by covid-19 and streamline a Specific Purpose work visa for long-term critical workers.

## Auckland politics

Auckland Council and the govt **agreed to a path forward for the City Rail Link, Auckland Light Rail and the Alternative Waitemata Harbour crossing**.

It appears mayor Wayne Brown is willing to play nicer with the government, possibly seeing no harm in **backing off his vocal criticism of the light rail project** because he doesn't expect it will ever be started if the government changes.

As well as confirming expectations first published in HUGOvision that **Auckland Council will sell some or all of its stake in Auckland International Airport**, Brown also pushed forward his agenda for the **Auckland port land**.

Brown proposed an **indicative timeframe** that would see the return of Captain Cook and Marsden wharves and the western half of Bledisloe wharf by Dec 2024, followed by the eastern half of Bledisloe by Dec 2029, Jellicoe and Freyberg wharves and the area around Tooley St by Dec 2034 and the Fergusson container terminal by Dec 2039.

Meanwhile, a key adviser to Brown's election campaign, former Key govt adviser **Tim Hurdle**, has left the mayoral office. We are told that his primary communications adviser, **Matthew Hooton**, is also on a short term contract and may soon depart.

Elsewhere, the **preferred candidate for Auckland Transport chief executive**, said to be an experienced executive from the UK, decided against taking the role. The candidate had requested a meeting with Brown, who has called for the AT board's resignation.

## Rural politics

The govt sought to take some of the political heat out of the breakdown in its relationship with the pastoral farming sector.

Jacinda Ardern announced **further work on the rules relating to on-farm carbon sequestration** – one of the biggest sources of revolt against the He Waka Eke Noa agricultural climate change deal – on the day that National Fieldays kicked off at Mystery Creek.

She has also **agreed to meet with the leaders of the Groundswell movement**, whom she had previously said she would not meet.

## Vax and covid politics

The explosion of emotion over the exploitation by the anti-vaccination lobby of a gravely ill infant needing open heart surgery showed **how raw emotions remain even as memories of the worst of the covid period recedes**.

Meanwhile, **covid daily cases continue to rise, with very little public health messaging**. The impression gained is that the government is no longer willing to risk backlash by reimposing even basic public health measures such as masking on public transport or in crowded public places.

The emphasis in the long-anticipated terms of reference for a **commission of inquiry into the pandemic** response rests heavily on lessons for future preparation rather than critique of the past.

However, a report this week from the chief ombudsman Peter Boshier found MBIE advice on the **MIQ lottery allocation system was inadequate and unreasonable**.

The commission will look at the entire response, identify lessons and how they can be applied to any future pandemic. It will be chaired by Australian-based epidemiologist Professor Tony Blakely, alongside two members, former minister Hekia Parata and former Treasury secretary John Whitehead. The Royal Commission will begin considering evidence from Feb 2023 and conclude in mid-2024.

## Smelter politics

**Rio Tinto** ramped up its arguments for the nature of the deal it will need if the Tiwai Point aluminium smelter is to remain open. Having indicated a desire to remain open earlier this year, senior local and

### Retiring MPs

Three ministers have announced their retirement at the next election along with three other Labour MPs. Ministers **Poto Williams, Aupito William Sio** and **David Clark** will not seek re-election in 2023, along with MPs **Jamie Strange, Marja Lubeck** and **Paul Eagle**. All will stay in parliament until the election. Green MP **Jan Logie** also announced her intention not to stand again.

## POLITICS AND POLICY

global executives made public arguments for the value to the NZ economy of the smelter, but warned that **the prices of both electricity and carbon, and the relative absence of government decarbonisation incentives could be hurdles**. The smelter, along with its Australian counterparts in Tasmania, NSW and Queensland were “very unlikely ever to generate material value”. Rather, their value was as part of an integrated production process that starts with mining bauxite.

The firm is seeking a contract that gives it upside when aluminium prices are strong, rather than the formula it says has operated to date, where electricity prices rise and fall based on the LME global price for aluminium.

Rio also expressed doubts about the prospects for an export-scale green hydrogen plant.

The smelter could be an anchor customer for a domestic green hydrogen plant, but the relative inefficiency of turning electricity into hydrogen – only to be turned back into electricity – was hard to justify. Add to that the carbon emissions involved in shipping hydrogen, and aluminium made a great deal more sense, Rio argued.

The argument is all the more compelling for Contact Energy’s recent decision to pull back from the Southern Green Hydrogen project, apparently because it concluded an export play was unlikely.

### Construction sector

The Commerce Commission produced a further report on competitiveness in the building supplies sector.

It was somewhat pre-empted by Fletcher Building announcing just ahead of the outcome that it would end its practice of volume discounts for gib board.

Asked whether this might lead to greater competition in the gib board market from alternative suppliers, Jarden analyst Grant Swanepoel asked: “From who?”

### Aviation fuel issues

The delivery of a “dud” tanker-load of aviation fuel by Ampol has reignited the debate over whether it was in the national interest to let the Marsden Point oil refinery close.

The argument is that when NZ refined most of its own aviation fuel, it had better control over its supply chain and fuel supply resilience. Contaminated fuel from the refinery could, for example, be re-refined.

The current situation, where international carriers face rationing, is causing serious relationship issues between Auckland airport and some airlines.

**Emirates, which has only just restored its long haul Akl-Dubai route, is particularly displeased.**

Our understanding is that a significant part of the problem is that **the three fuel suppliers – Ampol/Z, Mobil, and BP – refuse to share information about storage levels**, fearing such sharing could be judged anti-competitive.

That means the airport has less line of sight on total aviation fuel in storage than it is accustomed to.

**Presumably**, as owner of the pipeline that carries fuel from Marsden Point to Auckland, **Channel Infrastructure still knows who is getting what.**

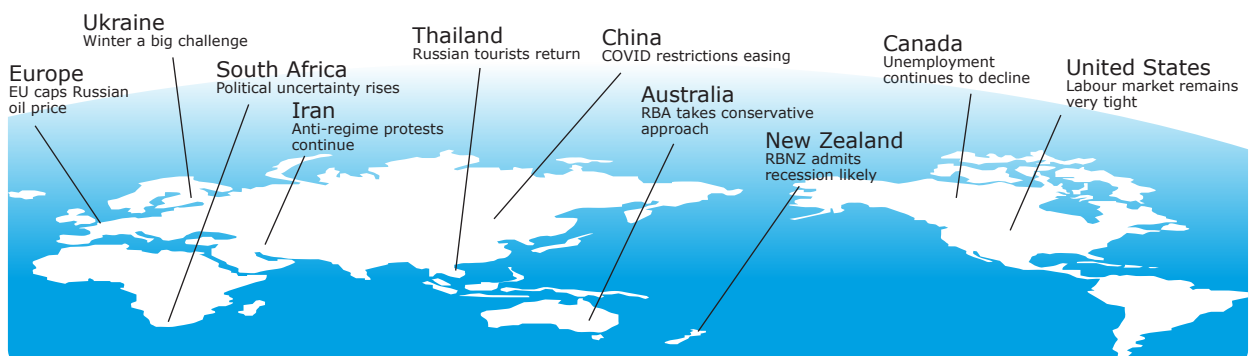
A regulatory intervention could overcome this apparent blind spot.

### Science reforms

Crown Research Institutes may no longer be required to operate in accordance with the commercial imperatives required by the Companies Act, although a government white paper on science reforms does not commit to that outcome.

Released by science, research and innovation minister Ayesha Verrall, the paper charts a fairly leisurely path to eventual reform of science funding by 2026.

### The world at a glance



The white paper identifies most of the issues that have characterised the debate over publicly funded science in the last 30 years – that competitive tendering to too many sources of potential funding, some of which are sub-scale, is hindering the production of great research and innovation.

A key element of the recommendations in the white paper is the creation of a clearer set of national priorities for scientific research. In that sense, the white paper follows the now familiar tendency for the current government to steer naturally towards centralisation of effort.

The first set of new National Research Priorities will be set in 2024, assuming the proposals survive a change of govt of there is one next year.

Any major structural changes to the sector would only come after these priorities had been established.

In principle, the reforms should be able to create opportunities for the emergence of new industries. Decarbonisation across the whole economy is likely to be a focus.

## Mahuta as liability

So much mud is sticking to the local govt minister Nanaia Mahuta that any other minister would be wilting. However, Mahuta is too important as the Cabinet's most senior Maori minister to be sacked, and her own political upbringing in the pitiless rough and tumble of Maori politics makes her unusually

impervious to bad headlines.

Her modus operandi has always been to keep a low profile. That is part of why the three waters reforms have stumbled so badly, but her refusal to engage in the media is an object lesson in how a commitment to silence can work as a communications strategy.

She was somewhat vindicated by this week's critical report from the Public Service Commission about the sub-standard conflict of interest processes used by Te Puni Kokiri and the Department of Conservation when they awarded govt contracts to her husband's consultancy. The report found no impropriety on her part.

These accusations, however, have a subterranean life and will continue to damage both the govt and Mahuta – and the political mood relating to Maori policy – through next year.

And Mahuta's handling of the three waters entrenchment issue has been murky. Jacinda Ardern has had to defend Mahuta, saying the unusual use of an entrenchment clause in the govt's three waters legislation was a mistake - but didn't explain how it came about.

The govt made a U-turn on the entrenchment rule which would have required 60% of MPs' votes to overturn provisions preventing privatisation.

Leader of the House Chris Hipkins said the clause would be removed as it was "not typical", and not something the govt was comfortable with doing. 🇳🇿

## Trading partner growth

(2020-2021 actual; 2022-2024 Hugo and Consensus Forecasts)

Trading partners	Weights %	GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
		2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
China	36.2	1.8	8.1	3.1	4.5	5.0	2.5	0.9	2.1	2.4	2.1
Australia	15.4	-2.1	4.9	3.9	1.8	2.1	0.8	2.9	6.6	5.2	2.5
United States	12.6	-2.8	5.9	1.0	0.2	1.6	1.2	4.7	8.1	4.1	2.4
Japan	6.4	-4.6	1.7	1.9	1.3	1.2	0.0	-0.2	2.4	1.8	0.7
Eurozone	5.4	-6.2	5.3	3.2	-0.1	1.3	0.3	2.6	8.5	6.3	2.2
South Korea	3.4	-0.7	4.1	2.6	1.3	2.3	0.5	2.5	5.2	3.1	1.8
United Kingdom	2.8	-11.0	7.5	4.4	-1.0	1.1	0.8	2.6	9.0	7.3	3.1
Singapore	2.1	-4.1	7.6	3.6	1.8	2.9	-0.2	2.3	6.1	4.4	2.0
Hong Kong	2.2	-6.5	6.3	-2.5	2.6	2.7	0.3	1.6	1.9	2.1	2.1
Taiwan	2.4	3.4	6.5	3.0	2.0	2.4	-0.2	2.0	3.0	1.9	1.6
Malaysia	1.8	-5.7	3.1	8.9	3.9	4.4	-1.1	2.5	3.4	3.0	2.3
Indonesia	2.3	-2.1	3.7	5.2	4.4	5.0	2.0	1.6	4.3	4.2	3.4
Thailand	1.8	-6.3	1.5	3.2	3.6	3.7	-0.8	1.2	6.1	2.8	1.6
Philippines	1.2	-9.3	5.7	7.0	5.2	5.8	2.3	3.9	5.6	4.5	3.2
Vietnam	1.6	2.9	2.6	7.6	5.9	6.4	3.2	1.8	3.3	3.8	3.0
India	0.9	-6.6	8.7	7.0	5.7	6.1	6.2	5.5	6.8	5.1	4.8
Canada	1.4	-5.2	5.0	3.4	0.4	2.1	0.7	3.4	6.8	3.8	2.3
<b>NZ Trading Partners</b>	<b>100.0</b>	<b>-1.6</b>	<b>6.1</b>	<b>3.1</b>	<b>2.6</b>	<b>3.3</b>	<b>1.4</b>	<b>2.1</b>	<b>4.6</b>	<b>3.6</b>	<b>2.2</b>
<b>Forecasts for New Zealand</b>											
Consensus		-2.1	5.6	2.3	1.2	1.4	1.7	3.9	7.1	5.0	2.7
BNZ Forecasts		-2.1	5.5	2.6	1.1	1.6	1.7	3.9	7.0	4.5	2.1
<b>The World</b>		<b>-3.3</b>	<b>5.9</b>	<b>2.7</b>	<b>1.7</b>	<b>2.1</b>	<b>1.9</b>	<b>3.6</b>	<b>7.4</b>	<b>5.7</b>	<b>3.5</b>

## HALF YEAR FISCAL AND ECONOMIC UPDATE

### Giving monetary policy mates

Grant Robertson has produced a fiscally conservative outlook in the half year fiscal and economic update, which should support the government's wider efforts to demonstrate that it is supporting monetary policy with fiscal restraint.

However, the difficulty of winning the 2023 election is writ large by the fact that the Treasury has now joined the RBNZ and most private economic forecasters in anticipating a recession that is expected to be at its worst towards the end of next year, effectively coinciding with the likely election date.

However, that is partly because the fiscal stance remains contractionary through to 2025, with an 8.2% fall in real government consumption between Sept this year and Dec 2024 as covid spending unwinds. Spending as a proportion of GDP declines from 35% of GDP in fiscal 2022 to 30.9% in fiscal 2027.

New spending allowances that were announced in the May Budget, of \$4.5b next year and \$3b a year for the following two years, were unchanged.

But Robertson is also talking up a spending "reprioritisation" exercise that ministers are being asked to undertake if they want to initiate new programmes.

Net crown debt never gets close to the 30% self-imposed cap, peaking at 21.4% by June 2024 and sinking by June 2027 to a forecast 14.1%. There is clearly room in this scenario for both National and Labour to offer income tax threshold changes, which are now well overdue. The last time the thresholds were adjusted was in October 2010. Fiscal drag is expected to add an additional \$1 billion a year in income tax annually.

This is National's policy for the tax year starting April 1 2024, while Robertson reiterated Labour has "yet to

announce its tax policy for the 2023 election" while acknowledging that the government is committed to a "fair, progressive tax system".

Prior to the election, there is another \$589m of either lost revenue or new spending to extend the fuel excise duty cut to the end of March 2023 before previously announced increases from April 1 to the family tax credit, superannuation, benefits, student allowances and increased childcare support arrive to offset cost of living increases.

The Treasury also forecasts a peak-to-trough fall of 20% in residential real estate prices between Sept this year and early 2024.

Wages and employment, however, remain relatively healthy. Hourly wage growth averaged across the five year forecast period is slightly ahead of forecast inflation over the same period, unemployment peaks at 5.5% in 2024 before retreating to 4.3% by 2027, which is consistent with the Treasury's view that 4.25% is the non-accelerating inflation rate of unemployment. Workforce participation rate is expected to remain elevated at 71%-plus over the forecast period.

The HYEPU contains plenty of caveats about the potential for the global economic outlook to deteriorate, and Robertson made clear at the verbal briefing today that the gov't was keeping its options open on "counter-cyclical" measures it could take if required.

However, he doubted that the \$9b nominally allocated for new capex in the next fiscal year would be spent in that period because of capacity constraints in the economy. Some \$62.7b is still earmarked for infrastructure capex over the next five years.

There is significant risk that high interest rates, rising unemployment and a weaker-than-anticipated housing market could result in a much weaker overall economic performance than currently assumed. 🏠

### Summary of the Treasury's Half Year Update fiscal forecasts

Year ending 30 June % of GDP	2022 actual	2023 (F)	2024 (F)	2025 (F)	2026 (F)	2027 (F)
Core Crown tax revenue	30.2	29.9	30.3	30.3	30.7	30.8
Core Crown expenses	35.0	32.8	32.6	32.2	31.5	30.9
Total Crown OBEGAL	-2.7	-0.9	-0.1	0.4	1.4	1.9
Core Crown residual cash	-7.5	-6.4	-4.3	1.7	1.0	1.3
Net debt <sup>1</sup>	17.2	19.9	21.4	19.1	17.1	14.1
Net worth attributable to the Crown	46.5	42.1	41.5	41.1	41.6	42.9

<sup>1</sup> Net debt is the 'new' net debt fiscal indicator that includes core Crown advances, Crown entity borrowings (excluding Kiwi Group), and the NZ Superannuation Fund.

### Summary of the Treasury's Half Year Update economic forecasts

Year ending 30 June	2022 actual	2023 (F)	2024 (F)	2025 (F)	2026 (F)	2027 (F)
Real GDP growth (annual av % change)	1.0	3.5	-0.3	2.1	3.3	3.0
Real GDP per capita (annual av % change)	0.7	3.2	-1.0	1.1	2.2	1.8
Unemployment rate (June quarter)	3.3	3.8	5.5	5.2	4.6	4.3
Consumer Price Index (annual % change)	7.3	6.4	3.5	2.5	2.0	2.0
Wage growth (annual % change)	6.4	6.8	6.1	4.7	4.0	3.8
Current account (annual, % of GDP)	-7.8	-7.6	-5.6	-4.8	-4.6	-4.6

## Housing market

Residential real estate prices continue in full retreat across most of the country, .

With mortgage interest rates rising aggressively, there is little sign as yet of stabilisation.

Floating rates are now just shy of 8%, with several lenders offering 7.99%. One to three-year fixed rates are oscillating between 6.5% and 7%.

Real Estate Institute of NZ data for Nov, the best real-time barometer of housing market activity, showed a 36.1% annual decrease in the total number of properties sold, while the median national house price fell 12.4% over the year.

Inventory is 47.7% higher than a year ago, while the number of days that it is taking a property to sell has risen by 12 days over the year to 41.

Of the 555 agents responding to the latest monthly survey by Real Estate Institute and Tony Alexander Real Estate, a net 48% said they were seeing fewer people at open homes, compared with a net 3% in Oct. A net 39% were also seeing fewer people at auctions, which compared with a net 10% in Oct.

Among various bank predictions for where the bottom might be, ASB's stood out for its pessimism, suggesting a 40% inflation-adjusted price fall from the 2021 peak to the eventual trough - about 25% in nominal terms.

ANZ expects house prices to bottom out at 22% down on last Nov's peak. It now expects the official cash rate to now peak at 5.75%, up from its previous forecast of 5%.

Stats NZ said new home consents were down 12% year-on-year last month, at 3,568, and at 50,252 for the past 12 months. The first break in a two-year cycle of record growth with annual consents hitting more than 51,000 units in May. Consents for standalone homes were down more than a quarter to 1,541.

Apartments, at 239 approvals, were down 28%, and planned retirement village units were down 32% at 139 units. The exception was the continued increase in the number of consented townhouses and units, up 17% to 1,649. That brought the number of multi-home consents for the past year to 28,116, an increase of 27% on the prior year.

Building activity, however, lags this forward trend. The volume of building activity rose 3.8% in the Sept quarter, compared with the June quarter, far outstripping economic forecasts. Residential building activity rose 3.1% in the Sept quarter, while non-residential building activity rose 4.9%, spread across the majority of building types and regions.

## Economic confidence

Business confidence fell 14 points in Nov to -57 in the ANZ NZ Business Outlook, while expected own activity fell 11 points to -14, only 8 points shy of 2009 lows. Activity indicators fell with residential construction intentions tanking.

Employment intentions were negative for the first time since Oct 2020. The survey showed inflation pressures remain intense, though pricing intentions eased.

An Institute of Directors survey found 68% of respondents expected NZ's economic performance to decline over the next 12 months. However, 50% of directors expected their organisation's performance to improve in the same period.

Consumer arrears were up 5% in Oct from a year prior according to credit bureau Centrix. Personal loan demand was up 18% year-on-year, with car loans up 17%, while for the third consecutive month home lending arrears increased.

A Westpac regional economic outlook survey found reasonably strong current conditions in Northland, Auckland/Waikato, Marlborough/Canterbury, and Otago/Southland.

However, the outlook in 12 months' time shows no expectation of anything other neutral or weak trading conditions, with greatest weakness in Auckland, the bottom half of the North Island, and the West Coast. All other regions show as neutral.

## Other

The ANZ World Commodity Price Index fell 3.9% in Nov. In local currency terms the index fell 9.1%, as the NZD appreciated 4.6% against the Trade Weighted Index. Prices for food commodities eased in Nov with the largest fall in meat and fibre.

Global shipping prices fell but the costs of moving goods from NZ are still considerably higher than prior to the pandemic and there are ongoing disruptions in shipping schedules.

The trade deficit increased in the Sept 2022 quarter to \$7.5b, Stats NZ said. Compared with the Sept 2021 quarter, total imports of goods and services rose \$5.6b (23%) to \$29.7b, while total exports of goods and services rose \$4.5b (25%) to \$22.2b.

Retails sales volume increased by 0.4% year-over-year in the Sept quarter, driven mainly by a 30% year-over-year increase in food and beverage sales, which were impacted by lockdowns in the 2021 Sept quarter.

There was a 10.7% increase in hospitality spending to

*(continues p. 10)*

## CORPORATE ROUND-UP

## Primary Sector

A **Human Rights Commission** review of the **Recognised Seasonal Employer** scheme found numerous breaches, including poor housing and unexplained deductions from workers' salaries with some of the treatment likened to modern slavery.

A flat dairy auction lifted the whole milk powder price index 0.1% compared to the previous event.

**Fonterra** lowered the top end of its forecast farmgate milk price but lifted its earning guidance after a strong first quarter of trading. It now expects to pay farmers \$8.50-to-\$9.50 per kilogram of milk solids, down from its prior range of \$8.50-to-\$10.00/kgMS. However, it lift earnings guidance to 50-to-70 cents per share.

The diary co-op also announced another milestone asset disposal, with the sale of its **Dairy Partners America** joint venture in Brazil with **Nestle** for \$210m to French dairy giant **Lactalis**. Fonterra announced the sale of its other major Latin American, **Soprole**, last month.

**Fitch Ratings** affirmed Fonterra's long-term credit rating at "A" with a stable outlook.

**Rabobank's Global Animal Protein Outlook Prices** for NZ beef and sheep meat are expected to soften further in 2023 as consumer spending moderates. High input costs would add to margin pressure.

As of June 30 2022, the number of beef cattle in NZ stood at 3.8m, down 3% from 2021, there were 25.1m sheep, down 2% from 2021, dairy cattle were 5.9m, down 4% from 2021. The area of wheat harvested was 40,900 hectares, a decrease of 6% from 2021. A 44,000ha barley harvest was unchanged from 2021.

**Scales** expects underlying net profit for the year ended Dec to be in a range of \$23.5m to \$28.5m.

**Freshmax Orchards** will be rebranded as **Kiwi Crunch** for the 2023 season, following its acquisition by **GTP Orchards**.

**MPI** projects ag exports to hit a record \$55b in the year to June 2023, despite economic headwinds, led by a project 6% increase in dairy sector export revenue of \$23.3b.

**Beef & Lamb NZ** remains concerned that the detailed technical framework for managing nutrient run-off on sloping land remain flawed and has warned that the model may be unworkable.

A new lobby group, **Methane Matters**, has begun pressing for a change in the way methane is measured under the ETS, based on the criticisms of reputable climate change policy analysts **Adrian Macey** and **Prof David Frame**.

**NZ King Salmon** is facing legal appeals against the

consent to set up its first open ocean farm in Cook Strait.

## Energy and resources

Cabinet deliberations on the findings of the **NZ Battery Project**, which includes consideration of the **Project Onslow** pumped hydro project, have been postponed until the early new year.

**Transpower** released its final indicative transmission charges under the new rules with winners and losers as the reforms tend to increase prices in the north. **NZ Steel** will face a 375% increase from \$2.9m a year to \$13.8m.

**Meridian** chose a JV involving **Woodside Energy** and **Mitsui** to advance development of the proposed Southern Green Hydrogen project, on a 40/40/20 split. **Contact Energy** has withdrawn from further involvement, apparently not being confident that a green hydrogen export play is bankable.

**NZ Green Investment Finance** is lending \$10m to **Solagri Energy** to help install solar energy generation on dairy farms.

**Gull NZ** said Ngāi Te Rangi iwi and another undisclosed Māori entity have come on board as new investors and partners.

Mining lobbyist **Straterra** expressed disappointment at how slowly **MBIE** is moving to identify a "critical minerals list" under the **Crown Minerals Act**. While other countries were moving to produce such lists, the NZ govt was more focused on stopping new mines, **Straterra** CEO Josie Vidal said. Consultations had been expected pre-Christmas.

## Banking, finance and insurance

The **RBNZ's** funding-for-lending programme expired on Dec 6. Banks accessed \$19.02b of the \$28b that had been on offer since late 2020.

Non-banks are worried compliance costs created by the **Deposit Takers Bill** will hurt NZ's credit unions, building societies and regulated finance companies.

The **Reserve Bank** is consulting on how new forms of private money, such as cryptocurrency, should be regulated.

**Sharesies** will launch a KiwiSaver scheme next year.

The **Reserve Bank** backed away from introducing new standards for mortgage-backed bonds under its proposed residential mortgage obligations. Instead, it will focus on making the current residential mortgage-backed securities fit for purpose.

**HSBC Holdings** is reviewing its NZ retail banking operations, with a possible sale tipped.



## CORPORATE ROUND-UP

## Telecommunications, media and entertainment

**Silverlight Studios** received consent to start on its film park outside Wānaka ahead of permanent \$280m studios.

## Wholesale and retail

**Foley Holdings NZ** paid \$9.3m for the remaining 75% stake in hospitality operator Nourish Group that it didn't already own.

## Transport

**Air NZ** expects ebit before extraordinary items of between \$275m and \$325m in the six months to Dec 31, compared with a range of between \$200m and \$275m forecast in Sept, reflecting lower aviation fuel prices and pricing power conferred by very strong demand.

## Manufacturing and construction

**Metro Performance Glass** reported a 78% improvement in ebit to \$5.6m for the half year to Sept 30, recording an 18% increase in revenue across its trans-Tasman businesses, to \$138.1m.

Threatened strike action that could have closed **Oji Fibre Solutions'** Penrose paper recycling facility was averted through mediation.

## Courts, legal and regulation

**Former Callaghan Innovation chief executive Vic Crone** has said she will take legal action against the Auckland consultancy **We are Indigo** and its directors.

Investment analysts are picking casino company **Sky City Entertainment** may face penalties of about AU\$50m (NZ\$53m) if breaches of Australia's money laundering rules by its Adelaide casino are proven.

The govt committed to doing policy work to create a **statutory regime for class actions** in 2023.

## Technology and IT

**Mercury IT** was named as the victim of a cyberattack that has compromised thousands of **Ministry of Justice** coronial files and the security of a number of other organisations' data.

**Gentrack** shares rose after the software developer raised its revenue outlook and said it was ramping up spending on research and development, and sales.

**Eroad** posted \$1m in ebit for the half year to Sept 30, up from a \$400,000 loss in the same period the previous year. Revenue rose 78% to \$85.4m but expenses rose 81% to \$64.6m. The company has begun a cost-cutting programme.

**Dawn Aerospace** successfully raised \$20m in venture capital.

## Service industries and healthcare

**Fisher & Paykel Healthcare** reported half-year earnings ahead of analyst expectations, as well as their own market guidance of \$670m, with operating revenue at \$690.6m.

**Arvida** lifted first-half net profit by 18% with net profit for the six months ended Sept \$89.2m from \$75.5m in the same six months last year with unrealised property valuation gains of \$89m, up from \$69.1m in the previous first half.

## Construction

Building minister Megan Woods introduced amendments to the Building Act – to be phased in from 2024 – that would mandate energy performance ratings on commercial, public, industrial, and large multi-level apartments. The govt is also set to mandate waste minimisation plans to be followed during construction.

## Tourism

The govt gave **Ruapehu Alpine Lifts** \$6m on top of \$2m already granted, to stave off liquidation and give breathing space to develop an alternative commercial solution.

## Property

**Auckland mayor Wayne Brown** outlined a plan to progressively return Auckland port land to the city between 2024 and 2039. Captain Cook and Marsden wharves and the western half of Bledisloe wharf would be returned by Dec 2024, followed by the eastern half of Bledisloe by Dec 2029, Jellicoe and Freyberg wharves and the area around Tooley St by Dec 2034 and the Fergusson container terminal by Dec 2039. The port's chair, **Jan Dawson**, described the announcement as "unexpected" and appeared to predetermine outcomes of consultations currently under way.

**Precinct Properties** agreed to buy 61 Molesworth Street in Wellington, together with a new 24,000-square-metre office development project to be built on the site. The \$250m project is expected to be completed in the third quarter of 2025 with the office space leased to **MFAT**. Precinct is also partnering with global private investment firm **PAG** to buy 40 and 44 Bowen St for \$240m. PAG will have an 80% interest and Precinct 20%.

**Vital Healthcare Property Trust's** manager is pulling back on acquisitions after spending \$287m in the year ended June, indicating that rising interest rates are prompting caution on new activity.

## Corporate actions

**Tourism Holdings** completed its merger with Australia's **Apollo Tourism & Leisure** after approval by the Queensland Supreme Court. As part of the deal, some ATL assets were sold to **Jucy Group** for \$45m.

**Downer** found "accounting irregularities" in its Australian Utilities business which may have resulted in overstated pre-tax earnings between Sept 2019 and Nov 2022.

## Capital markets

Technology investment company **Blackpearl** is on the acquisition path after listing on the NZX. Its share price fell more than 30% after listing.

Auto parts sourcing platform **Partly** secured \$37m in a Series A funding round, with strong support from European VC firm **Octopus Ventures**.

**Manuka Bioscience** launched a public capital raise of up to \$5m with private equity firm **Snowball Effect** to fund research and development of its mānuka oil products.

## People

**John Small** will take over as chair of the **Commerce Commission** from Dec 5, he has been a member since Dec 2018.

**Wellington Airport's** new chair is **Morrison & Co** executive director **Rachel Drew**.

**Restaurant Brands NZ CFO Arif Khan** will act as group CEO when **Russel Creedy** retires next March.

**John Key** joined the board of Dunedin-based forensic and data science firm **Oritain**.

**Nathan Field** will move from **Kiwi Wealth** to KiwiSaver provider **Generate** as global equities portfolio manager.

**Mainfreight's** former NZ company manager has been appointed CEO of rival **Move Logistics**.

**NZ Automotive Investments** hired **DB Breweries'** sales director **Paul Millward** to be its new ceo.

**Kiwi Property** chair **Mark Ford** will step down next year after holding the position for 13 years. He will be succeeded by current director **Simon Shakesheff**.

**Stuart Dickson** will be **Vista's** CEO from April; He's currently NZ country manager for NY-listed **DXC Technology**.

Former governor-general **Dame Patsy Reddy** will become NZ Rugby's first woman chair, replacing **Stewart Mitchell**.

**Brad Olsen** was named the new CEO at economic consultancy **Infometrics**. 

(continued from p. 7)

\$13.4b for the 12 months to Sept.

## Migration

Provisional estimates for the year ended Oct 2022 compared were migrant arrivals; 78,700, up 40%; migrant departures, 82,80, up 23%. The annual net migration loss of 4,100 ( $\pm 1,500$ ) compared with a net loss of 11,200 ( $\pm 30$ ) in the previous year.

There were 161,600 overseas visitor arrivals in Oct 2022, up 157,900 from Oct 2021.

The biggest changes were in arrivals from Australia (up 85,700), US (up 13,600), UK (up 9,400) and Germany (up 4,300).

Overseas visitor arrivals were up 10,400 from Sept 2022 (151,300).

Spending from all international visitors totalled \$1.03b in the three months to Sept 30 2022, with \$626m of that coming from Australian visitors, the International Visitor Survey said.

Tourism electronic card transactions in eight regions (out of 16 was higher than Oct 2019 levels pre-covid).

Retail card spending rose \$21m (0.3%) in Nov compared with Oct, when adjusted for seasonal effects. The increase largely came from spending on consumables, up \$16m (0.6%).

Spending on durable items (such as furniture, hardware, and appliances) had the largest fall in Nov, down \$18m (1.1%). That fall followed a large 2.9% rise in Oct.

Higher debt servicing costs are expected to add roughly \$80 per week to the average household budget by the end of next year, ASB said. This is an extra \$8b on household debt servicing.

## Inflation

Food prices recorded a 10.7% annual rise to Nov 2022, compared with a 10.1% rise in the year to Oct, Stats NZ said. The biggest contributor to this rise was grocery food prices, up by 10%, followed by fruit and vegetables, which rose 20%. Meat, poultry and fish rose by 12% and non-alcoholic beverages by 7.8%.

## Carbon prices

The final carbon auction for the year cleared at \$79, just below the secondary market price earlier this week and the first time they have dropped in price from the previous auction.

All 4.8m NZUs on offer were sold, raising \$381m for the govt. 

## End of year rush

The final weeks of the parliamentary year was dominated by the usual end of year rush as the govt sought to clear its legislative decks ahead of the summer break. Some of this was to get contentious bills into law – the Water Services Entities Act for instance, and also to get as much of its legislation as possible to select committee before Parliament rises for the year. This will give bills such as those covering resource management reform a greater chance of passing into law before this parliament is dissolved ahead of the election. Parliament adjourns on Wednesday afternoon with MPs returning for the first sitting of 2023 on Feb 14.

- *Italics denote update from previous edition of Hugovision*
- *A full compendium of the legislation before the House is available on The Hugo Group website, [www.thehugogroup.com](http://www.thehugogroup.com)*

## Bills introduced

**Accident Compensation (Access Reporting and Other Matters) Amendment Bill** - Introduced Nov 22. Requires ACC to report on how Māori and other population groups' access the ACC scheme, brings forward eligibility for the minimum rate of weekly compensation from the sixth to the second week of incapacity. First reading Nov 22 under urgency with National opposed and sent to the education and workforce committee.

**Climate Change Response (Late Payment Penalties and Industrial Allocation) Amendment Bill** - Introduced Dec 2. Creates a new penalty regime for ETS participants with low-volume liabilities from forestry activities who fail to surrender or repay units by the due date. Also reforms industrial allocation settings for NZUs.

**Health and Safety at Work (Health and Safety Representatives and Committees) Amendment Bill** - Introduced Nov 22, first reading under urgency with National and Act opposed. Removes current thresholds that limit worker access to health and safety representatives and health and safety committees. Sent to the education and workforce committee.

**Human Rights (Incitement on Ground of Religious Belief) Amendment Bill** - Introduced Dec 8. Improves protections for faith-based groups by making speech likely to excite hostility unlawful.

**Parental Leave and Employment Protection (Shared Leave) Amendment Bill** – Member's bill in the name of Nicola Willis, introduced Dec 8. Allows paid parental leave to be split between spouses or partners and taken at the same time, provided the total paid parental leave doesn't exceed the maximum provided for a single primary carer.

**Sale and Supply of Alcohol (Community Participation) Amendment Bill** - Introduced Dec 7. Improves communities' ability to influence alcohol regulation in their area by making changes to the alcohol licensing process.

**Therapeutic Products Bill** - Introduced Nov 30. Replaces the Medicines Act 1981 and the Dietary Supplements Regulations 1985 with a new regulatory regime for therapeutic products.

**Water Services Economic Efficiency and Consumer Protection Bill** - Introduced Dec 8. Sets up a regulatory framework for the price and quality of water infrastructure services, and consumer protection for water infrastructure services.

**Water Services Legislation Bill** - Introduced Dec 8. Sets out the functions, powers, obligations, and oversight arrangements of water services entities.

## Bills in progress

**Crown Minerals Amendment Bill** - Introduced Nov 22. Changes the purpose of the Crown Minerals Act from the promotion of mining activity to managing it, including greater requirements to consult with iwi. First reading Nov 22 under urgency opposed by National, Act and Te Paati Māori. Referred to the Economic Development, Science and Innovation Committee.

**Employment Relations (Extended Time for Personal Grievance for Sexual Harassment) Amendment Bill** - Bill from Labour MP Deborah Russell, introduced Oct 21. Extends the time to raise a personal grievance alleging sexual harassment from 90 days to 12 months. Committee stage completed Dec 7.

**Fire and Emergency New Zealand (Levy) Amendment Bill** - Introduced Sept 20. Makes change to funding regime for FENZ through a levy on insurance premiums. Reported back Dec 12, minor amendments.

**Fuel Industry Amendment Bill** - Introduced Nov 15. Provides a threat of wholesale price regulation, subject to an inquiry and recommendation from the Commerce Commission. First reading under urgency Nov 22 with National and Act opposed and sent to the economic development, science and innovation committee.

**Grocery Industry Competition Bill** - Introduced Nov 21. Creates a Grocery Commissioner at the Commerce Commission to monitor and regulate the supermarket sector. First reading under urgency Nov 22 with Act opposed and sent to the economic development, science and innovation committee.

**Legal Services Amendment Bill** - Introduced Nov 16. Repeals provisions in the Legal Services Act related to the user charge payment and interest charged on unpaid legal aid debt. First reading Nov 22 under urgency with National opposed and sent to the justice committee.

**Local Government Official Information and Meetings Amendment Bill** - Introduced Nov 22. Requires local councils to publish natural hazard information including forecast climate change impacts on Land Information Memorandums. Also limits legal liability if the information is published in good faith, but not if information is withheld. First reading under urgency Nov 22 with all parties in favour and sent to the Governance and Administration Committee.

**Natural and Built Environment Bill** – Introduced Nov 15. Replaces and repeals the Resource Management Act in tandem with the Spatial Planning Bill. Lays out the framework for regulating both environmental management and land use planning. First reading Nov 22 with National, Act and Te Paati Māori opposed. Sent to the environment committee. Submission date extended to Feb 5.

**Spatial Planning Bill** - Introduced Nov 15. Provides for the development and implementation of long-term, regional spatial planning. First reading Nov 22 with

## LEGISLATION

*National, Act and Te Paati Māori opposed and sent to the environment committee. Submission deadline extended to Feb 5.*

**Natural Hazards Insurance Bill** - Introduced March 16. Replaces the Earthquake Commission Act 1993 and changes the name of the Earthquake Commission to Toka Tū Ake – Natural Hazards Commission. *Committee stage completed Nov 8.*

**Residential Tenancies (Healthy Homes Standards) Amendment Bill** - Introduced Nov 22. Extends the final compliance date for the healthy homes standards to July 1 2025. *Passed through all stages Nov 22 opposed by the Greens and Te Paati Māori.*

**Sale and Supply of Alcohol (Exemption for Race Meetings) Amendment Bill** - Bill in the name of National MP Ian McKelvie, introduced Oct 21. *Second reading completed Dec 7 with 61 in favour, 50 opposed and one abstention on a personal vote.*

### Bills passed/defeated

**Arms (Licence Holders' Applications for New Licences) Amendment Bill** - Introduced Nov 8. *Amends the Arms Act to extend the validity of firearms licences for applications delayed in processing. First reading Nov 8 opposed by Te Paati Māori and sent to the justice committee. Reported back Nov 17 with minor amendments and Act putting in a minority report opposed to some aspects. Passed through remaining stages with all parties in support on Nov 22.*

**Climate Change Response (Extension of Penalty Transition for Forestry Activities with Low Volume Emissions Liabilities) Amendment Bill** - Introduced Oct 4. Extends an expiring transitional regime allowing for lesser ETS penalties for small forestry owners who cut down trees from pre-1989 forests and fail to surrender or repay units. *Committee stage and third reading completed under urgency Nov 22 with all parties in favour.*

**Companies (Levies) Amendment Bill** - Introduced June 2. Allows the Companies Office to manage its registries as a portfolio when collecting and administering fees. *Passed through remaining stages under urgency on Nov 22 with National opposed.*

**Electoral Amendment Bill** - Introduced July 20. Changes to the donations and loans framework including: lowering the public disclosure threshold for donations and contributions to political parties from \$15,000 to \$5,000; amending the reporting requirements for donations received from the same donor in excess of \$30,000 (either in one lump sum or in total over the preceding year) by reducing the threshold to \$20,000, but requiring disclosure within 10 working days only in a general election year; requiring parties to report donations under \$1,500 that are not made anonymously and requiring the annual return of party donations to separately state the total amount of monetary and in-kind donations received. Also temporarily amends the overseas eligibility period

from one year to six years for citizens and four years for permanent resident due to covid. *Reported back Dec 1 with minor amendments including one proposed by the justice minister to widen the definition of donations in light of the case involving NZ First and its foundation. Second reading Dec 6 with National and Act opposed. Committee stage completed Dec 7. Third reading Dec 13 with no changes in parties' positions.*

**Remuneration Authority Legislation Bill** - Introduced Oct 11. Transfers responsibility for determining the remuneration of certain judicial and statutory officers to the Remuneration Authority. *Third reading completed under urgency Nov 22 with all parties in favour.*

**Security Information in Proceedings Legislation Bill** - Introduced Nov 25. Amends several laws to provide a framework for dealing with national security information in court proceedings. A response to Part 2 of the Law Commission's report - The Crown in Court: A Review of the Crown Proceedings Act and National Security Information in Proceedings. *Third reading completed under urgency Nov 22 with the Greens opposed.*

**Smokefree Environments and Regulated Products (Smoked Tobacco) Amendment Bill** - Introduced June 21. Significantly limits the number of retailers able to sell smoked tobacco products; aims to prevent young people from taking up smoking by prohibiting the sale of smoked tobacco products to anyone born on or after 1 Jan 2009; aims to make smoked tobacco products less appealing and addictive. *Reported back Nov 28 with many technical amendments, particularly the process to decide on permission to sell tobacco products, with licensed premises reduced to 600. Both National and Act put in opposing minority reports. Second reading completed Dec 6 with National and Act opposed. Committee stage completed Dec 8. Third reading Dec 13 with no change in parties' positions.*

**Social Security (Accommodation Supplement) Amendment Bill** - Introduced Nov 22 under urgency and passed through all stages with all parties in favour. *Clarifies eligibility for, and the rate of, an accommodation supplement for a community spouse or partner who is not receiving long-term residential care in a hospital or rest home and whose spouse or partner is receiving long-term residential care.*

**Water Services Entities Bill** - Introduced June 2. The first in a suite of legislation to implement the three waters reform. Creates the framework for four publicly owned water services entities. *Committee stage completed under urgency Nov 22 with National, Act and Te Paati Maori opposed. Sent back to the committee stage Dec 6 after Labour had second thoughts on a clause which attempted to entrench anti-privatisation provisions put in by the Greens at the committee stage. The clause was removed with only the Greens opposed. Third reading completed Dec 7 with the Greens withdrawing support due to the lack of protection over privatisation and as a result only Labour supported the bill.*

