

How long a wait for a government?

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In theory, it should be possible to form a government quickly after November 3. National and Act have a working relationship, ministers-to-be are already seeking official advice under caretaker government arrangements, and the PM-elect has set great store by a fast start. Yet there are plenty of reasons to think it may take until late November to stitch a coalition together.

Peters' shot across the bows

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Winston Peters warned colleagues he intended to reinsert himself into the news agenda this week, before tweeting inaccurate accusations about the Christchurch mosque attacks as official hearings into the massacre began. The move appears calculated to put Luxon on notice that NZ First is a willing disrupter if it is not kept happy.

Centre-right alignment

Pp 2&3

The three centre-right parties agree about enough of the big issues to be able to work together and, if they wish, to construct a multi-term policy agenda. The trouble is that agreement between parties that still compete against one another at the polls end up in conflict over who gets credit. That may work against the potential for a long period of centre-right administration.

A "bruised" Act

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Despite having one more seat than in the last Parliament and the prospect of having Cabinet Ministers, the Act party is feeling bruised by the collapse in its vote during the last weeks of the election campaign.

Economic headwinds

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The election outcome is likely to produce a lift in business confidence, but that is not in itself likely to have much impact on real world trading conditions, which remain recessionary, particularly as efforts to reduce government spending kick in. Wage inflation pressure is abating quickly, while firms are finding it difficult to raise prices.

Big transport policy shifts

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Some of the outlines of revised transport policy priorities are clear. Auckland is likely to do well, in part because the city led the return to the centre-right. Wellington transport projects may advance by the government forging ahead on some projects without council involvement.

What now for Labour?

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Current signs are that Labour will stay with Chris Hipkins as leader in the short to medium term. A replacement candidate is not obvious, notwithstanding David Parker's apparent willingness to start an internal debate about what the party stands for and how it should reposition for the future.

How different is it this time?

The most significant aspect of the dynamics emerging around the creation of a new government is the recognition by all three parties involved that they could set the stage for a long period of centre-right government.

There will be inevitably be haggling over specific policies, ministerial positions and some difficult bottom lines. Act's insistence on a Treaty-based referendum, for example, looks like a major sticking point.

However, National, Act and NZ First also see a unique opportunity to forge relationships that could cement centre-right governments for the next six to nine years.

Achieving that foundation will be a major test of Christopher Luxon's still-developing skills as a politician.

Winston Peters's aggressive misinformation Tweet relating to the March 2019 mosque murders was a deliberate shot across Luxon's bows, according to close observers. Peters had told caucus members earlier in the week that he would seek to reinject himself into the news agenda, and to make clear to Luxon that politics can produce surprises of a sort not normally experienced in corporate life.

Where corporate structures generally suppress dissent, it is part of the role and lifeblood of minor political parties to disrupt.

Peters may also have calculated that his comments would resonate with foreign embassies as a "tough on terrorism" message but the primary purpose was to try and rattle Luxon.

The pair are understood to have spoken only once since the election and there was little chemistry.

By comparison, there is considerable discussion occurring between National and Act, albeit much of that appears to be about settling process rather than policy or ministerial positions.

Complicating factors

While the logic of a long term centre-right comity seems compelling, the reality is that the three centre-right parties are still political competitors.

On top of this, Act is in soul-searching mode, feeling bruised by the collapse in support that occurred in the latter stages of the campaign.

The reality is that National and NZ First are relatively moderate parties, whereas Act is a radical party whose leadership and supporters seek what leader David Seymour called "real change".

If the party is offered little meaningful reform in areas of particular focus, it may yet choose to sit on the cross-benches while National and NZ First could form a coalition.

This combination should not be discounted, although National's preference is to have all three parties in the coalition tent.

While some National Party insiders dare to hope that the special votes won't follow the usual pattern of favouring the left, there is no credible evidence to suggest that history won't repeat.

The "realists" in the National camp see the party losing a seat as its party vote sinks to around 38%.

There may yet be too much friction between Act and NZ First so that either may choose the cross-benches rather than coalition.

How fast can things happen?

Luxon has talked up an action-packed first 100 days, including pre-Christmas repeal of key Labour legislation and a mini-Budget.

To have any chance of delivering that, he may hope to form a government within days of the Friday, Nov 3, final vote tally.

With the Pacific Island Forum running from Nov 8 and the APEC annual leaders' meeting the following week in San Francisco, that implies targeting government formation by Nov 7.

If that is not achievable – it would be likely that to get such a quick deal National would have to concede a lot – a government may not form before the end of November.

If so, Luxon may face his first disappointment as Prime Minister by being unable to achieve much in the short amount of time left before Christmas.

In that case, the mini-Budget also risks being a thin gruel.

Luxon regards early momentum as vital not only to gaining early trust from the voters who sought change, but also because the fiscal position will force deep, early government spending cuts.

While many New Zealanders will welcome the idea of culling Wellington public servants, the scale of the cuts being advocated is so large as to defy credibility.

Fitch Ratings noted over the weekend, the scale of cuts is hard to take seriously and places fiscal surplus projections for 2027 at risk.

In this climate, there is likely to be considerable pressure on either the timing or quantum of the tax package that National has promised.

Since election night, Christopher Luxon has been

careful only to commit to “tax relief for low and middle income New Zealanders”.

That is distinctly different from a commitment to implement exactly the tax package taken to the electorate.

Common fiscal fears

If there is to be a change to that package, it would be best for the new government either to signal or announce it in the mini-Budget planned before Christmas.

To that end, we are told that MPs from the would-be governing parties are now peppering the Public Service Commission with requests for advice on policy settings and costings.

This process is part of the caretaker arrangements that precede a change of government. The range of advice requests is understood to be wider than just fiscal targets, but there is probing occurring on whether or not there are any landmines in the books.

For example, there are credible concerns that the PREFU has failed to account fully for the impact of pay equity agreements in the health sector. While the cost of the agreements on government employees has been included, the full impact of government-subsidised wages paid to private sector providers in sectors including hospitals and aged care may not have been fully costed.

The current global environment of rising interest rates and bond markets showing signs of resisting

further attempts at stimulus through government debt issues is adding to the pressures the new administration will face.

What does NZ First want?

One option is to seek “ministers outside Cabinet”, an option used by NZ First in the Clark years, befitting NZ First’s status as the most junior partner and giving the party some freedom to act up.

NZ First is floating the idea of being given portfolios like fisheries, forestry, and state-owned enterprises – all portfolios it has had before. There is also enthusiasm for climate change resilience infrastructure funding.

The party opposes National’s and Act’s plans to raise the age of pension eligibility.

It also wants to kill once and for all the proposed Kermadec ocean sanctuary, a Key-era initiative that has been on ice since that government left office thanks to uproar from Te Ohu Kaimoana.

The party is making noises about junking National’s overturning of the foreign buyers’ ban, but there is not a unified position on this yet.

NZ First and Act are very wary of one another. Act has sought advice on how to manage NZ First, with the advice being that respective chiefs of staff will be vital to manage constructive relationships. This will be Cam Burrows for National, Andrew Ketels for Act and probably Darroch Ball for NZ First, unless he is displaced by Jon Johansson, Peters’ former chief of

Trading partner growth

(2021-22 actual; 2023-2025 Hugo and Consensus Forecasts)

Trading partners	Weights %	GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
		2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
China	36.2	8.7	3.0	5.0	4.5	4.9	0.9	2.0	0.7	1.8	2.3
Australia	15.4	5.2	3.7	1.6	1.3	2.3	2.9	6.6	5.5	3.2	2.5
United States	12.6	5.9	2.1	2.1	0.8	1.8	4.7	8.0	4.1	2.5	2.0
Japan	6.4	2.2	1.0	1.8	0.9	0.8	-0.2	2.5	3.1	2.0	0.9
Eurozone	5.4	5.3	3.4	0.5	0.7	1.6	2.6	8.4	5.5	2.5	2.0
South Korea	3.4	4.1	2.6	1.1	2.0	2.4	2.5	5.1	3.4	2.1	2.0
United Kingdom	2.8	7.6	4.1	0.3	0.4	1.6	2.6	9.1	7.4	3.1	2.5
Singapore	2.1	7.6	3.6	1.0	2.2	2.5	2.3	6.1	4.8	3.0	2.0
Hong Kong	2.2	6.3	-3.5	4.2	3.1	3.1	1.9	1.9	2.1	2.2	2.0
Taiwan	2.4	6.5	2.4	0.7	2.9	2.1	2.0	3.0	2.2	1.6	1.6
Malaysia	1.8	3.2	8.7	3.9	4.3	4.3	2.5	3.4	2.8	2.5	2.5
Indonesia	2.3	3.7	5.3	5.0	4.9	5.1	1.6	4.2	3.7	2.8	2.8
Thailand	1.8	1.6	2.6	3.0	3.6	3.4	1.2	6.1	1.7	1.9	1.7
Philippines	1.2	5.5	7.6	5.2	5.5	6.0	3.9	5.9	5.7	3.4	3.1
Vietnam	1.6	2.6	8.0	4.7	6.0	6.0	1.8	3.2	2.9	3.3	3.1
India	0.9	8.3	7.2	6.3	6.3	6.0	5.5	6.6	5.5	4.7	4.7
Canada	1.4	5.0	3.4	1.3	0.7	2.2	3.4	6.8	3.8	2.5	2.4
NZ Trading Partners	100.0	6.4	3.1	3.1	2.8	3.3	2.1	4.6	3.0	2.3	2.2
Forecasts for New Zealand											
Consensus		6.0	2.7	0.7	1.3	2.6	3.9	7.2	5.6	3.0	2.0
BNZ Forecasts		6.0	2.7	1.2	0.8	3.1	3.9	7.2	5.8	3.6	2.5
The World		5.9	2.9	2.4	2.1	2.5	3.6	7.4	5.3	3.7	3.5

staff, who has been brought back for talks.

Transport policy reckons

One of the biggest changes in direction between the new government and the last will be transport and relations between the Beehive and NZ's mayors, particularly Auckland's Wayne Brown.

The cosmetic stuff is well traversed: slower speed limits on some roads, Auckland Light Rail, and Labour's promised fuel tax hike are all for the bin. The mooted light rail schemes in Wellington and Christchurch, already looking doubtful under Labour, will be scrapped too.

A new Government Policy Statement on Land Transport, effectively a draft transport budget, is promised to go out for consultation in the first hundred days of the government and take effect on July 1 next year.

It will be a political test for the next transport minister, likely to be National's Simeon Brown, although Act's Simon Court and NZ First's Shane Jones are in the picture as associate ministers.

The first challenge will be Waka Kotahi's verdict on the cost of what National claims is a \$24b package (over 10 years), based on costings which are years old in some cases.

The second challenge will be finding the \$9.5b in private funding the party has promised would pay for part of the package, including a proposed transit line from Auckland's CBD to the West (\$2.9b).

Standoffs loom in Auckland and Wellington

In Auckland, Mayor Wayne Brown has been uncharacteristically charitable about the merits of a cheaper, surface level light rail and has warned rates would need to rise to plug the gap left by the 10c a litre Auckland Regional Fuel Tax if National follows through on repeal.

Budgeting on either is a non-starter for National. National and Brown may be able to agree on scrapping the MDRS (the sausage flat law) in its first 100 days, replacing it with measures allowing the city to grow, effectively getting rid of the urban-rural boundary.

There could be action on the busway northwest to Kumeu, finishing the Eastern Busway to Botany, starting Botany to Manukau and the airport, and maybe construction of a second line on the Shore. All are currently planned, but could be accelerated.

In Wellington, the new government will withdraw from the \$7.4b Let's Get Wellington Moving (LGWM) transport plan with the city and regional councils. National wants central government to fully fund the new Mt Victoria Tunnel and Basin Reserve upgrades (\$2.2b) by shutting local government out of the conversation.

No hurry to replace Hipkins?

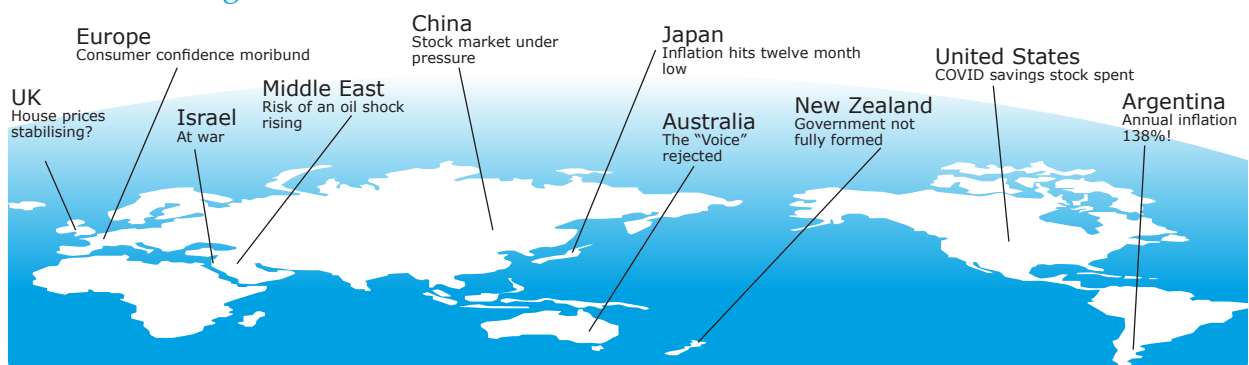
Labour is still absorbing its defeat, so it is too early to know whether Chris Hipkins has either the appetite to remain leader, at least for part of the current parliamentary term.

At this stage, he appears to have sufficient support to win the 60% support required from the caucus in a mandatory leadership election within three months of the election, and expected before Christmas.

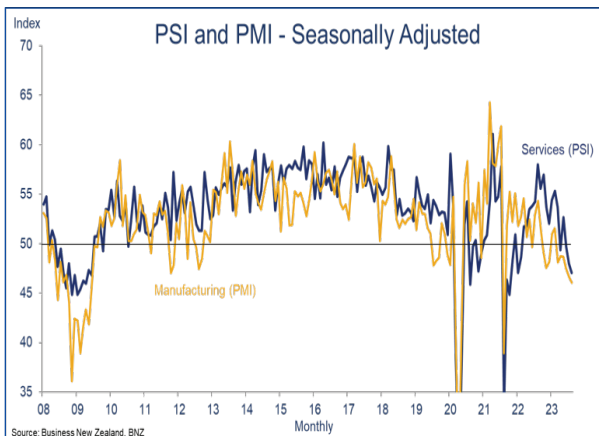
The only identified potential challenge is from David Parker, who is bitter about the wealth tax decision but he lacks significant caucus support. While some Labour supporters believe the party should have gone harder left, that is not the message delivered by the electorate, which swung right.

Grant Robertson is readying himself for retirement with his replacement likely to be Barbara Edmonds or Megan Woods. Willie Jackson will not see out this term either, meaning a change in leadership for the Māori caucus and a new Māori campaign chair. ■

The world at a glance

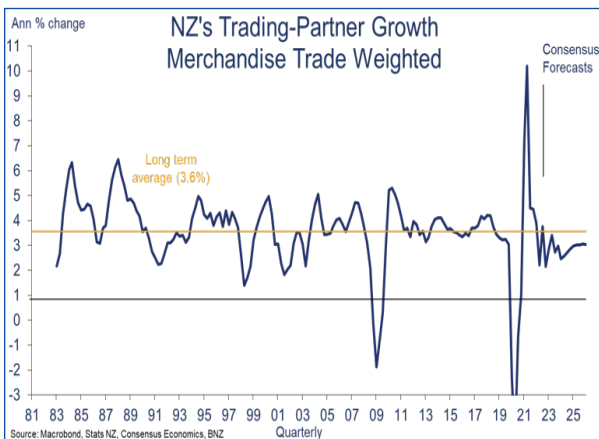


DOMESTIC ECONOMY



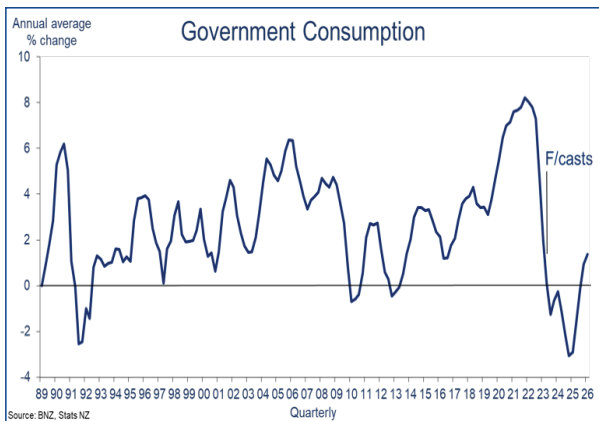
Current conditions poor

- Manufacturing is particularly weak.
- Services rebounding somewhat.
- Election outcome will improve sentiment, but this should not be confused with any significant improvement in trading conditions.
- Firms with exposure to the public sector may already be experiencing delay, reprioritisation and cancellation of intended activity as savings are sought.



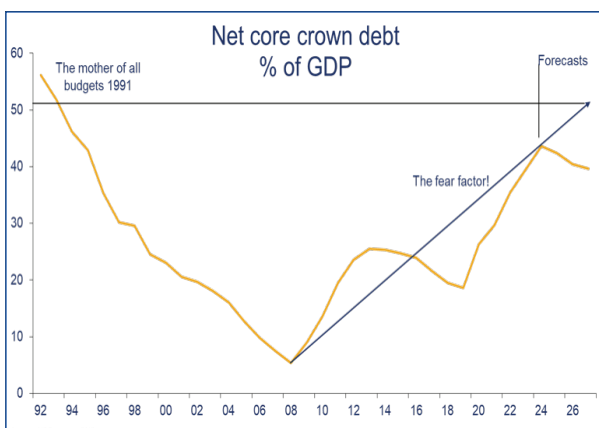
Global growth sub par

- High interest rates.
- China slowing to around 4% p.a.
- Rising oil prices in response to Middle East hostilities.
- “Maybe the most dangerous time the world has seen in decades” – Jamie Dimon, JP Morgan, October 2023.



Government contraction a biggie

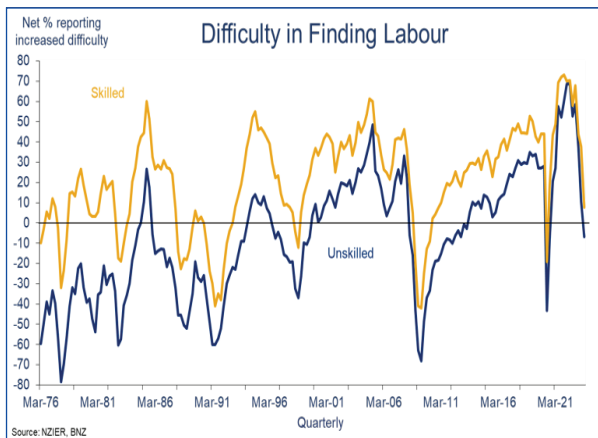
- Fiscal consolidation is having a strongly contractionary impact on the NZ economy.
- The forecast reflected here does not take into account the intentions of the new government to make more significant spending cuts.
- The windback from covid era ‘big government’ overshadows activity for the next three years or so.



Net core crown debt frightening

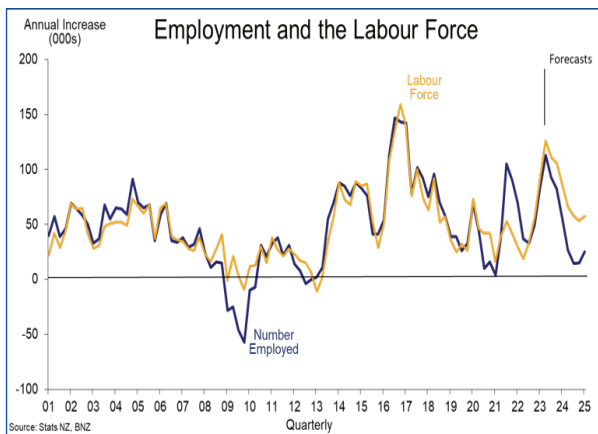
- NZ's net core crown debt is low by global standards.
- But the sharply rising trajectory since 2008 is a trend that eventually risks credit rating agency concern and unsustainability.
- The assumed reduction in the forecasts shown here requires a return to fiscal surplus that looks difficult to achieve in the forecast timeframe.

DOMESTIC ECONOMY



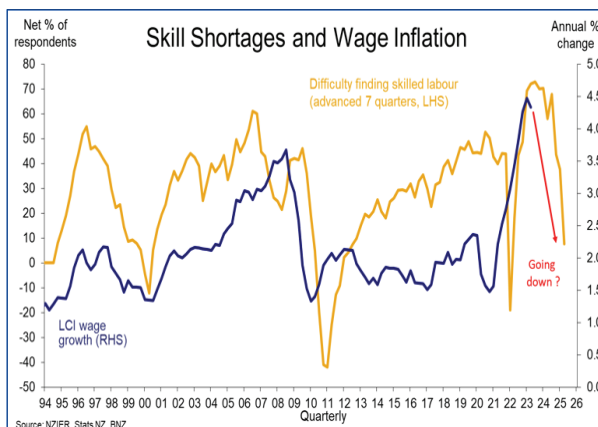
Easier to find staff

- On the positive side, the labour market tightness that afflicted so many sectors earlier in the year has well and truly passed.
- High immigration is easing labour shortages and helping to hold up consumption, which is nonetheless falling on a per capita basis.



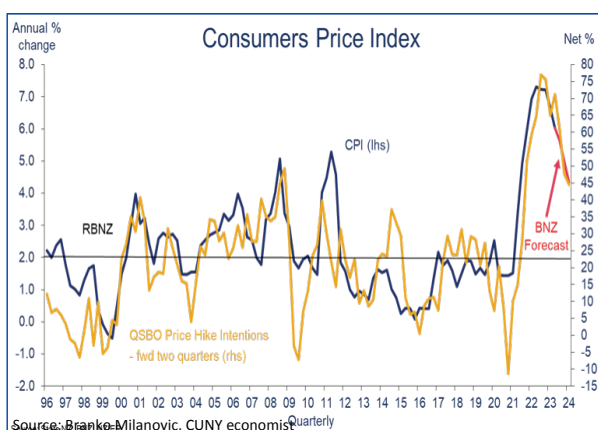
Supply exceeding demand

- At the same time as labour is becoming easier to find, job growth is slowing.
- Labour market dynamics suggest a lower rate of worker churn.



Wage pressures ease

- The combined effect of weak economic conditions and high migration is producing labour surpluses.
- This in turn is reducing wage inflation pressures significantly.
- This trend is a key contributor to inflation falling back towards the target band.



Pricing intentions slump

- Weak trading conditions are also restricting firms' capacity to pass on price increases or to increase margins.
- This is another key contributor to inflation falling.
- Nonetheless, global inflation is proving "sticky", prompting a revival of commentary suggesting that monetary authorities may move over the next few years to regarding a somewhat higher level of inflation than has prevailed in the last 30 years to be sustainable.

Primary Sector

The **Global Dairy Trade** auction registered a big gain for the fourth time in a row with whole milk powder firming 4.2% to US\$3,059/tonne, skim milk powder gaining 4.3% to US\$2,659/tonne, and anhydrous milk fat jumping by 7.1% to US\$5,310/tonne. Prices overall were up by 4.3%, despite China not being a significant participant. **NZ Rural Land Co** said recent GDT auctions imply a milk price of \$7.90 per kg/MS, a premium to the midpoint of **Fonterra's** Oct forecast of \$7.25/kgMS. The dairy processor raised its forecast to a range of \$6.50/kgMS-to-\$8/kgMS.

Brazil's antitrust regulator approved **Fonterra** and **Nestlé** selling **Dairy Partners Americas Brazil** to French dairy company **Lactalis** for about \$210m.

A2 Milk Co and **Synlait Milk** entered binding arbitration following an impasse over a2's effort to end the exclusive manufacturing and supply rights the milk processor holds over a2's infant milk formula products for sale in China, Australia and NZ.

Ruapehu mayor Weston Kirton is hopeful that the new government will introduce additional controls over **carbon farming** on top of the changes to the National Environmental Standards for Commercial Forestry introduced by Labour.

Me Today said its King Honey business and its customer in the China market expected lower sales for the rest of the FY24 financial year and down on FY23. The company is currently discussing the impact of this with its lenders, **BNZ** and the **Jarvis Trust**, while reviewing its costs and considering the sale of assets or raising new capital.

Wayne McNee was appointed chief executive of **AgriZeroNZ**, the joint venture between major agribusinesses and government aimed at aiding farmers in reducing emissions.

Energy and resources

Transpower warned the electricity system is likely to face periods of extreme tightness in winter 2024 and of an urgent need for additional investment in fast-start peaker-style electricity sources, whether batteries or additional gas-fired plant. Greater use of demand management is also urged.

Genesis Energy said a review of its retail operations may lead to a reduction of approximately 200 roles in the fiscal years 2024 and 2025.

WEL Networks and **Infratec** said they have begun commissioning a 35MWh battery energy storage system near Huntly. It is the first of this scale to be built in NZ.

Meridian Energy entered into an agreement with **NZ Windfarms** for a 50/50 project to repower Te

Rere Hau windfarm in the Tararua Ranges. This will see the replacement of failed local turbine maker **Windflow Technology's** two-bladed machines with 39 new turbines to generate 170MW. A placement of NZ Windfarms shares to Meridian, valued at \$6.7m, takes Meridian's stake in the company to 13.04%.

Banking, finance and insurance

Harmoney said it completed the runoff of its existing peer-to-peer loan balances since it first stopped using the platform in March 2020 after regulators raised questions about the business model.

Telecommunications, media & entertainment

MediaWorks belatedly reported a loss of \$125.9m in the financial year ended Dec 31 following a \$110m impairment. As of that date, the group's current liabilities exceeded assets by \$19.4m. The company was negotiating its breach of banking covenants and ongoing lending support, conditional on a number of factors, including having an external review of its plans and operations. Auditors PwC tagged the accounts saying material uncertainty casted significant doubt about it as going concern.

TV3 is shuttering its 7pm info-tainment show **Seven Sharp** as it seeks to cut costs.

TVNZ reported a 78% advertising revenue collapse and slump in NPAT for year to June 30 to \$1.7m, compared to \$7.9m the previous year.

Wholesale and retail

Dessert brand **Sara Lee** went into voluntary administration. Christchurch private equity firm, South Island Office, bought the business two years ago from **McCain Foods**.

UK clothing retailer **Seasalt Cornwall** expanded into NZ, opening its first international store on Auckland's North Shore.

Transport

Port of Tauranga reported a 9% drop in Q1 freight volumes, reflecting a combination of timing factors for major exports, lower imports on weak consumer demand, and shipping service changes.

Auckland Light Rail settled on a \$33m property in Kingsland but has not entered into any further property discussions as the project awaits its future under the new government.

BMW Group's NZ business grew 7% for the first nine months of the calendar year driven by sales of electric vehicles. Total new vehicle registrations across its range grew to 1,368, up from 1,275 last Sept.

Freightways announced the retirement of Steve

CORPORATE ROUND-UP

Wells, general manager of Express Package, after 40 years with the company. Aaron Stubbing, the general manager of Post Haste, will replace Wells in March 2024

Air NZ is working with an Australian call centre company with a base in the Philippines to expand its call centre support as short term support to reducing wait times.

KiwiRail is adding three off-peak return services on the Auckland / Hamilton train line in February.

Hawaiian Airlines will pause its three-times-a-week service for seven months from April saying while demand is healthy, the weakness of the NZ dollar has dented demand for holidays in Hawaii.

Manufacturing and construction

Analysts mainly approved **Fletcher Building's** counter-arguments to Perth builder BGC's leaking pipe claims. However the share price still fell with most picking that legal action is the most likely outcome to decide whether the product or the installation is to blame.

Courts, legal and regulation

The Crown sought leave to appeal two of the eight charges on which the High Court acquitted **CBL's** Peter Harris and Carden Mulholland.

Zoono is being prosecuted by the Commerce Commission over claims of unsubstantiated representations about its products. It denied the allegations.

Waikato industrial processing company **Waitoa Industrial Estate** was convicted fined \$102,000 in the Hamilton District Court for the unlawful discharge of wastewater into the Waitoa River in May 2021.

Insolvency lawyer Murray Tingey avoided suspension over his inappropriate conduct 15 years ago at his former firm Bell Gully, but was censured and fined \$15,000.

Former National party MP Aaron Gilmore's property entity – **Cow Power Investments** – owes creditors more than \$1m, according to the first liquidator's report.

Technology and IT

Scott Technology said group revenue for the

financial year ending Aug 31 2023, was up 21% to \$268m and margins grew from 24% to 27%. Net profit was also up 21%, to \$15.4m. Operating earnings before interest, taxes, depreciation, and amortisation increased 27% to \$30.4m.

Aspiring Materials, a Christchurch startup developing carbon sequestration technology, was named as a fellow of Breakthrough Energy, a Bill Gates initiative to provide technical support, funding and resources to companies working in difficult-to-decarbonise industries.

Service industries and healthcare

AFT Pharmaceuticals share price lifted following approval of its intravenous post-operative pain relief drug, Maxigesic, IV by US regulators.

Wellington-based, Australian-listed breast cancer software company **Volpara Health** achieved 12 months of positive cashflow, meaning it no longer has to file quarterly reports to the Australian stock exchange.

Tourism

Tourism Holdings forecast \$100m net profit in the 2026 financial year after reporting underlying pro forma net profit of \$77.1m in the year to June 30 and statutory net profit of \$49.9m.

Property

Claims against **Du Val Group's Lakewood General Partner**, the development vehicle for its 151-apartment Lakewood Plaza in Manukau, increased by \$5.96m to \$16.2m, according to the latest liquidator's report.

Capital markets

Black Pearl Group successfully completed a \$1.74m placement to US investors in the US of 5.64m shares available at \$0.51 per share.

People

SkyCity Entertainment chief executive **Michael Ahearne** is to leave after giving six-months notice.

Drew Davies was appointed **Rakon's** CFO. He was most recently in the same role at 2degrees.

Leanne Dekker, chief financial officer of **My Food Bag Group**, has resigned after eight months. 🇳🇿

