M&F

Molesworth & Featherston In The Loop

POLITICS AND ECONOMICS

HEADING
Copy

HEADING
Copy

COMMENTS?
Email us

Economy

Slower say the mandarins

Treasury in its monthly update to finance ministers has tipped growth to come in weaker in the December quarter than the 0.7 per cent it was predicting at the time of the half-yearly update. Officials informed the Beehive the labour market is easing but remains tight by historical standards and is adding to wage pressure.

Household confidence has been high relative to the mood of business but is easing significantly, contributing to a further softening in the housing market.

The high New Zealand dollar has been an additional source of pressures on many exporters, especially manufacturers, but falls later in the week to around US65 cents should ameliorate Treasury's concerns.

Of concern are signals businesses are planning to cut back investment at a time when capacity constraints suggest that - at least for inflation-busting - more capacity is needed.

The annual trade deficit for the year to January of $7.1 billion was the highest as a percentage of exports since 1976. Further falls in the currency will widen the trade deficit in the short term before the extra competitiveness it brings to exporters ultimately narrows the current account gap.

The Reserve Bank agrees the economy is slowing, but in deciding this week to hold interest rates at their current level Governor Alan Bollard said household spending has only recently started to wane. "Over the next two years, we expect overall growth to remain subdued while a major rebalancing takes place, with a recovery in net exports as domestic demand weakens."

The Bank expects the dollar to fall more but it saying interest rates won't fall faster this year unless the economy slows faster than it's picking - which leaves the door to earlier interest rates cut wide open, since the RBNZ has steamier forecasts for the underlying health of the economy than virtually everyone else. Our inflation rate - 3.2 percent for the year to December, is only just above the OECD average of 3.0 percent, according to figures out this week. But once Turkey's ten percent inflation rate is removed from that, we tick up towards the top end of developed countries.

M&F Weekend update

Just as those seasonal warnings about lake levels appeared, Statistics NZ released figures showing the volume of electricity generated by hydro and wind fell to the lowest December level since December 2001.

Hydro and wind provided less than sixty percent of all electricity generated in the quarter - the average for the last decade was 69 percent. More thermal was generated in the three months to December then ever before in a December quarter.

Meridian Energy says South Island hydro lakes are currently sitting well below average for the time of year. It's warning there could be further power shortages this winter - unless it rains like Noah. The story is always a little hoary this early in the year: It's always true that if we don't get enough rain in autumn then we will run out of power. The Electricity Commission is expressing concern, but arguing there is no 'crisis' yet. Still, the effects are already being felt: Meridian has already sealed a deal with Comalco to reduce consumption at Bluff by ten percent.

The awkward interaction of conservation and planning legislation has been exposed - yet again - by Conservation Minister Chris Carter's veto of the Whangamata marina.

There are two separate issues: the merits of the marina, and the fairness of the process.

The issues the minister based his decision on are important; the carpark (which would pave over a salt marsh) and marina could be a worthwhile facility. Which you choose is a matter of values. But the process is wildly unfair and clumsy: If the proposal was always going to be stopped by the minister, why let developers chug through a million dollar consent process and a twelve year community-dividing goose chase?

The idea of the RMA is to look at the impact of resource use. It struggles to fairly allocate rights between competing impacts. Its processes look like they've been designed to give everyone else a chance to stop a development long before the minister has to wear the political fall-out (or maybe the other way around, so that in most cases the minister is meant to say 'well, it was a court decision and I shouldn't interfere with that'). The government should consider a better process - where the certainty of a veto was at the outset rather than at the end.

State Sector

Howard Fancy is stepping down in October after ten years (the regulation two terms) running the Ministry of Education.

Sue Powell is going to the Ministry for the Environment on 18 March as acting CEO when Barry Carbon leaves.

Reaction to the merger of CYFS with MSD has been mild. We are yet to see costings. Taking into account likely middle-management redundancies, cost of merging systems, write-offs of existing logos and stocks of letterhead, perhaps ending leases and contracts...we have heard a whispered back-of-the-envelope estimate of the merger costing ten million dollars. The government expects the merger to be complete by 1 July this year.

Industrial

Mediation has delivered a proposed settlement in the long dispute between Asure New Zealand and PSA members, and meat inspectors have withdrawn notices of industrial action.

Actors Equity is winding itself up and joining its Australian counterpart, the Media, Entertainment & Arts Alliance.

The Service and Food Workers' Union is looking for a "living wage" for hospital staff and one national agreement for public hospital service workers. The union says hospital staff are earning as little as $9.75 an hour. Their colleagues in the Nurses' Organisation working in residential aged care today begin sending their pay slips to the PM, saying that perhaps she doesn't realise that most of them are on just $11 an hour.

Media tattle

Listener deputy editor Tim Watkin has resigned to take up the Qantas award fellowship to Wolfson College, Cambridge, and will then move to the United States with his American partner. Meanwhile Gordon Campbell is also leaving the Listener. The veteran writer is off to parliament to take over Mark Servian's role as a Greens press secretary.

Asia:NZ hosted a media workshop last week where the idea of newswire was floated that would that would feed translated stories from ethnic media to big media.

And from the we-didn't-know-they-had-it-in-them file, we hear that the DominionPost's Infotech guru Reuben Schwarz is about to have a children's book published, and that Listener writer Nick Smith is reviving his musical career with a gig at the St James in Auckland at 9PM this Friday.

Media

The sale of TradeMe for $700 million, and possibly as much as $750 million, puts a premium value on the business. So it should; It's a premium enterprise. But it doesn't value the company at the astronomical levels we saw for some internet businesses before 2001's dotcom crash. Back then, when companies like Yahoo and Amazon were trading at a loss, they would have had to increase their asset base as much as ninety-fold to justify the peak prices paid for their shares. Those businesses look sturdier today. TradeMe looks sturdier still: It is profitable where the dotcom shadows were not; it is wallowing in cash where its predecessors burned cash; Contrary to some Australian analysis, it has only just begun to realise its potential.

With an audience over a million, TradeMe is already one of New Zealand's dominant media. It's therefore a logical buy for a big media company.

TradeMe has only just begun to make serious moves in real estate (2005) and motoring (2003) and already has a leading position in both markets with the prospect of considerable growth ahead. It still has plans for jobs and rental accommodation services. Still there is room for growth.

The deal though will be funded with A$375 million of debt, which will put pressure on to grow earnings substantially. Standard & Poor's immediately changed Fairfax's credit rating, meaning the company will pay more for its debt across the entire group. One wonders if it factored that into the purchase price, though S&P also said the rating itself would be likely to be cut only if Fairfax makes more debt funded acquisitions. More telling, S&P noted Fairfax is now even more exposed to a cyclical down-turn in advertising revenue. That could happen as the economy slows.

At the same time as the purchase was announced, Fairfax announced a half-year profit of $124.8 million on revenue of $977.6 million, before non-recurring items (both $A figures). In New Zealand the company's profit ticked up slightly, to $98.8 million (ebitda) on advertising revenue of $217 million

UPGRADE TO READ THE EARLY EDITION WITH MORE DEPTH

ANALYSIS AND INSIGHT

The online business Molesworth & Featherston is open to all offers over $700 million, or even for valuations based on an earnings multiple of 15.6 Just write to us at:

molesworth@molesworthandfeatherston.info

Bulk subscriptions are available with heavy discounts for organisations to send one to every decision-makers' in-box.

Just email us for details or secure an individual subscription online through the award-winning Good-Returns site with your credit card here.