

At A Glance

☐	Exchange Rates Kiwi will remain elevated, but will fluctuate.
↑	Inflation Expect an increase as the recovery continues.
↓	Wages Expect smaller quarterly increases in 2010.
↑	Road Freight Higher costs will see prices rise.
☐	Shipping Expect prices to be stable due to oversupply.
↑	Insurance Premiums are likely to rise.
☐	Motoring Prices will stay relatively stable.
↓	Computing Expect cheaper laptops and PCs.
☐	Telecoms Competition will keep prices stable.
↑	Electricity Despite reforms, the price will continue to rise.
↑	Oil Look for prices to stay stubbornly high.
↑	Gas New supply has not kept prices under control.
↓	Travel Increased competition means lower fares.
↑	Office Supplies Expect a modest rise.
↑	Business Rents/Leases Rents will rise as the economy picks up.
↑	Postage There's only one way for this to go.
↑	Local Body Rates Upheaval means higher costs.
↑	Couriers Higher operating costs will be passed on.
↑	Printing Competition should keep rises to a minimum.
☐	Compliance Costs Don't expect too much change here.
☐	Human Resources Low demand should help keep costs down.
↑	Legal Costs Fees will increase as the recession fades.

Source: <www.themainreport.co.nz>

Tax Cuts Traded For GST Rise - Will It Stimulate Growth?

A new tax structure, with tax cuts worth \$4bn, an increase of GST to 15%, and compensatory adjustments to benefits, unlocking NZ's mineral wealth, new priorities in science and innovation, changes to how property is taxed; welfare benefit reform with a focus on helping people back

The great global financial crisis seems to be fading away, but in its wake there is a persistently strong NZ dollar, a tighter credit market, an expectation of higher interest rates and now a likely hike of GST to 15%. It will cost more to do business this year.

- 1 **Exchange Rates.** While there will be some fluctuation, the NZD will remain elevated during the first half of the year. But as the Federal Reserve begins to unwind stimulus and lift the Federal fund rates during the second half of the year, appetite for the US dollar may return. But don't expect too much from the Kiwi this year, unless the US dollar strengthens considerably.
- 2 **Inflation.** With the economy in its early days of the recovery, inflation pressures remain subdued for the time being. However, as the recovery gains momentum, the medium-term outlook for inflation will become more concerning. The *Reserve Bank* will begin a pre-emptive strike against inflation, boosting the OCR to at least 3.75% by year's end, while some analysts think it will be higher - possibly 5%.
- 3 **Wages.** *ASB Bank* is forecasting smaller quarterly increases this year, compared with 2009. This mostly reflects the higher level of unemployment, which will persist over 2010. Also having an influence is the slower increase in the cost of living. Skill shortages are unlikely to become a wide-ranging issue until the end of the year.
- 4 **Road Freight.** There is a lot more competition in the road freight market, and there will be deals to be had. However the longer-term picture is for hauliers to try to recover from price cuts last year, and rising fuel prices will ensure a steady increase in costs.
- 5 **Shipping.** There is still a massive glut of shipping capacity and rates on the Baltic exchange plummeted to record lows last year. Costs will inevitably increase this year as the sector tries to return to normality. But price rises will be subdued. However the fact fewer shippers are calling in NZ will make getting deals more difficult.
- 6 **Insurance.** The industry is getting back on its feet after the tough times faced by some of the bigger players, so its focus will be on boosting premium levels to lift profitability. Premiums will not remain static. Expect at least a 5% increase in premiums this year.
- 7 **Motoring.** The Kiwi dollar staying at relatively high levels will mean car prices remaining relatively stable. The industry is in the doldrums after a very poor 2009, so there will be deals available. Maintenance costs will be an area of concern, as will fuel with oil already at the \$US80 plus mark. The high Kiwi dollar will help here however.
- 8 **Computing.** Laptop and PC prices are ridiculously low, and are likely to remain so as intense competition between retailers and lower costs of production keep prices down. Peripherals are also at lower prices. Software is likely to be the major cost factor in the IT sector, especially accounting software to deal with the expected hike in GST.
- 9 **Telecoms.** More competition and some high profile actions by the Commerce Commission have given telcos pause for thought. The cost of telephone systems is heading down as mobiles take over more business calling functions. More competition and faster networks have provided businesses with much greater options and there are some good deals to be had. Shop around for the best deals this year.

- 10 Electricity.** The Govt has signalled more reform of the electricity retail market, but it is likely prices will continue their upward climb. Power companies are looking for finance new generation and it is inevitable there will be rises again in 2010 – expect 6%.
- 11 Oil.** Increasing demand for oil as the world economy recovers will push prices north. While there will be fluctuation, a range between \$US70 and \$US80 a barrel is likely this year, maybe more, before a possible reduction in the northern summer. The rises may be off set by new discoveries.
- 12 Gas.** Prices are still on the rise, despite new supply. While domestic and small-scale gas users have plenty of supply, pressure on prices remains upwards, and industrial users including power companies are not confident about long term supplies in the quantities they will need.
- 13 Travel.** Increased competition has seen fares hit very low levels. There is not expected to be any let up in the fierce battle for passengers on NZ domestic routes and across the Tasman. This is all good news for the business traveller. The advent of *Pacific Blue* and *Jetstar* has forced *Air NZ* to be more competitive on price. However in some cases service levels have fallen with prices.
- 14 Office Supplies.** The high dollar is likely to keep office supply prices relatively stable. Expect moderate increases in the price of paper and printer cartridges.
- 15 Business Rents/Leases.** Hard times in the past 18 months have meant there is a fair bit of commercial property on the rent/lease market so businesses can cut a good deal. However as the economy picks up expect landlords to try to claw back their shortfall from the last fairly tough two years. Any property tax changes could force a more significant increase in rent.
- 16 Postage.** The new head of *NZ Post Brian Roche* takes up his job this year and has already hinted falling volumes will mean cost increases. Significant cost hikes seem inevitable as the postal service tries to find relevance in an increasingly digital world.
- 17 Local Body Rates.** There is big upheaval on the way in the local body sector, with the Auckland Super City on the way. The changes will be expensive, and the cost will inevitably fall on ratepayers. Councils will also be trying to gain funding for infrastructure. Expect increases in excess of inflation.
- 18 Couriers.** There are many operators, but *NZ Post* is a big player and it is here where it is picking up the money it is losing on the postal service. The market is competitive, but expect higher fuel and operator costs to be passed on. Increases will certainly be in excess of inflation – maybe 5%.
- 19 Printing.** Printers are fighting for every customer, and with the higher dollar keeping some of their costs under control, there should be a bit more price stability. However expect a moderate cost increase to reflect higher labour costs. Shopping around will secure you the best deal.
- 20 Compliance Costs.** This is an area where the National led Govt wants to make a difference for business. So far there has been no significant change, but expect the cost of doing business as far as Govt compliance goes to remain static or decrease.
- 21 Human Resources.** There is not likely to be very strong job growth over 2010. The labour market tends to lag activity, so while the economy is out of recession the number of jobs is still declining and unemployment increasing. In addition, there was a lot of labour hoarding during the recession, and we have not yet had confirmation of an increase in hours worked. This also suggests widespread job growth could be sometime yet. There is still a lot of idle capacity within the HR/recruitment sector, and competition could keep a lid on costs.
- 22 Legal Costs.** The cost of most legal services will remain fairly static as many businesses have taken on their own in-house lawyers in an effort to cut costs. However a resurgence in M&A activity may provide some impetus for fee increases.

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to work; are the salient points for business of *John Key's* programme to lift NZ's economic performance. Clearly the model for implementing economic policy has been refined to match the MMP environment. Instead of the "big bang" approach, the Key-led coalition is moving to the Aust model of continuous reform.

It's clear Cabinet is set on lifting GST to 15% and also intends to cut top tax rates (though whether to 33c or 30c has yet to be determined). Company tax could be lowered to 25%, though this might depend on the level fixed by Aust after it receives the *Henry* report. Of the tax base-broadening options proposed by the *Tax Working Group*, only the changes to depreciation on property have survived as a potential source of additional revenue, possibly between \$750m to \$1.1bn.

Source > www.transtasman.co.nz

NZ Economy In Recovery Mode

The NZ economy is now poised to stage a recovery over 2010. There are now increasing signs of the global recovery gaining traction. For NZ, the strong performance of Australia and China will be particularly beneficial. The economic recovery is set to become increasingly broad based. Increased housing construction will support the construction sector while improved global demand has seen manufacturers' confidence lift. With activity and profitability starting to improve, businesses will begin to increase investment spending over the latter part of the year.

As NZ's economic outlook continues to improve the RBNZ will look to lift the OCR off emergency settings. The RBNZ will start to increase the OCR in April, returning the OCR to 5% in 25 basis point steps.

Housing led recovery. Over 2010 the housing market will become more balanced. Slowing net migration and higher interest rates will ease demand, while increased residential construction will boost supply.

Consumers return to shops. Consumer confidence has lifted off lows and retail spending has started to improve. While consumer spending will continue to improve, an element of caution will remain along with reluctance to increase debt levels.

Inflation. Disinflationary pressures over the past year have seen the annual inflation rate ease back toward the mid-part of the *Reserve Bank's* target band. However, it is surprising core domestic inflation pressures did not fall by more given the severity of the recession. As the economy starts to recover, the inflation outlook is set to become increasingly uncomfortable for the RBNZ.

Source > Jane Turner, Economist ASB Bank