

At A Glance

<input type="checkbox"/>	Exchange Rates. The dollar will stay high.
<input type="checkbox"/>	Inflation Expect little or no rise.
↑	Wages There will be marginal rises.
<input type="checkbox"/>	Road Freight Competition will keep rates low.
↑	Shipping Costs will go up.
↑	Insurance Disasters mean costs will rise.
<input type="checkbox"/>	Motoring The high dollar will control costs.
↓	Computing Commoditisation will lower prices.
<input type="checkbox"/>	Telecoms Technology will keep costs down.
↑	Electricity Expect prices to keep rising.
<input type="checkbox"/>	Oil Expect similar prices, barring disaster.
<input type="checkbox"/>	Gas Good supply equals stable costs.
<input type="checkbox"/>	Travel A mix of rises and falls.
<input type="checkbox"/>	Office Supplies Expect stable prices
↑	Business Rents/Leases They will rise.
↑	Postage Plan for increases and slower delivery.
↑	Local Body Rates No doubt they will rise.
<input type="checkbox"/>	Couriers Competition will keep rates stable.
↓	Printing Highly competitive, so lower costs.
↓	Compliance Costs More likely down than up.
<input type="checkbox"/>	Human Resources Costs should stay stable.
↑	Legal Costs Lawyers are starting to recover.
↑	Construction Only one way here up.

Source: <www.themainreport.co.nz>

Can Govt Graduate From “Grumpy Growth?”

Key’s bold decision to revamp Cabinet comes at a time when business leaders have been calling for the Govt to break the “grumpy growth” cycle and launch new initiatives. Senior Ministers acknowledge this could be a “make-or-break” year for their economic strategy. The Business Growth

The international economy is still going to dominate the local one, this year so your business costs may owe as much to events in Japan as in Wellington. The usual suspects are in the frame for increases, but not all costs will rise.

- 1 Exchange Rates:** The NZ dollar is going to stay high this year, bar some sort of new global economic catastrophe. The expectation is it will go even higher maybe up to US86c as long as NZ interest rates stay at high levels relative to the other major economies. Managing your FX exposure will be key.
- 2 Inflation:** Benign is the word to use for 2013. The elevated level of the NZD will keep import prices under control. The Canterbury rebuild is the most likely driver of inflation, along with rising house prices. The Reserve Bank will, as always, keep a close eye on things. There will be no OCR rise until at least the end of the year, or maybe into 2014.
- 3 Wages:** 2012 saw unemployment stay stubbornly high, with wages subdued as a result. Unemployment is likely to stay around the 6%+ level all this year. Skill shortages will emerge in certain areas, particularly IT, Engineering and construction. Public sector wages will continue to underperform. Expect private sector pay to stay well above the state sector, as Govt austerity continues.
- 4 Road Freight:** Oil is likely to stay close to \$US100 plus a barrel range as it did last year. Road freight is still competitive, so don’t expect too much in the way of cost increases. A surge of trouble in the Middle-East may be a catalyst for higher oil prices at times.
- 5 Shipping:** The international shipping lines are calling the shots and costs have increased significantly over 2012, while services were cut. Expect more cost increases and reductions in services this year.
- 6 Insurance:** Expect much higher premiums, much higher excesses and much tougher claims processes. Insurers are still dealing with the fall-out from the Christchurch quakes and other global disasters such as Hurricane Sandy in the US, and another round of Queensland flooding.
- 7 Motoring:** The strength of the dollar will be the key to motoring costs, particularly petrol prices, for 2013. - if the dollar stays high, things will be much the same as 2012, but if the dollar plunges costs could rise.
- 8 Computing:** The high NZD will also continue to do its bit in keeping prices low. PCs are commodities now, so prices will be keen. Tablets and smartphones will be the subject of intense competition, but peripherals will be where the savings are made. Solid State data storage is expected to get cheaper.
- 9 Telecoms:** Improving technology will keep costs down. The split of Telcom and Chorus is still filtering through in terms of costs, but increasing competition between carriers is going to ensure increases are not too significant, and broadband costs may fall again.

- 10 Electricity:** Keep your eyes out for a good deal, and be prepared to negotiate if you are a bulk user, or shift supplier if you don't have high usage muscle. Electricity prices will rise as generators take stock of lower demand and recovering their investment in more secure generation and infrastructure.
- 11 Oil:** The stagnant world economy is weighing on demand, which should keep price increases in check. Expect oil to remain around \$US100 to \$US105 a barrel. But at least there is no sign of a supply shortage as more discoveries here and overseas come online.
- 12 Gas:** There should be reasonable supply, and costs should remain reasonably stable as a result, but bulk deals could still be negotiated.
- 13 Travel:** Domestically expect travel to regional centres to be cheaper as Air NZ looks to bring new aircraft on stream. Airlines are still battling for passengers which should keep costs on trans Tasman routes down.
- 14 Office Supplies:** The high dollar is keeping costs in check along with more competition from suppliers.
- 15 Business Rents/Leases:** The sector is bouncing back, which means leases and rents will be under pressure particularly in Auckland and Christchurch. In Wellington consolidation of Govt premises means more space available.
- 16 Postage:** NZ Post will inevitably be shoring up its declining postal business by pushing up prices. Four day delivery is the norm and this will be even slower if the three day postal week is passed.
- 17 Couriers:** Intense competition should again keep costs under control. There will be deals to be had as various operators try to gain market share.
- 18 Local Body Rates:** Cuts in Govt spending will be matched by increases in rates. Some have already been announced, expect at least 3 to 5%.
- 19 Printing:** This is a sector attempting to re-invent itself at the higher end of the market. Good quality printing will be more expensive. At the lower end of the scale competition will keep costs in check.
- 20 Compliance Costs:** There are not likely to be any major increases, and some fees could even be cut, for example local body consenting.
- 21 Human Resources:** The slow economy, and high unemployment should keep the cost of recruitment under control. Christchurch could be a different matter as reconstruction starts to really gather pace.
- 22 Legal Costs:** Demand for litigation and other advice services will continue to rise but lawyers will be happier as the housing market has bounced back.
- 23 Construction:** Costs will rise as the Christchurch rebuild starts to absorb skilled labour and vast amounts of material, causing shortages elsewhere. The Govt's demand local bodies free up more land will increase demand.

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Agenda has to begin delivering results. There are signs the Christchurch rebuild is gaining momentum, and the sharemarket reflects a new buoyancy within some business sectors. The Govt is making headway with its welfare changes. High on the economic agenda will be floats of Mighty River Power, and possibly another SOE.

The Govt is beginning to get significant results from public sector reform though the work is far from complete.

Key Issue - Subdued Recovery v Stronger Housing Market

RBNZ to weigh up subdued recovery with strengthening housing market. Recent GDP data shows growth over much of 2012 was softer than initially thought. This largely reflects the fact while the earthquake rebuild boosted economic activity, this boost is not as great as first thought. More recent activity indicators suggest the NZ economy will pick up over the coming year.

Reconstruction key driver of NZ recovery

We continue to expect the reconstruction of Canterbury will be a key feature of NZ's economic recovery over the coming years. There has already been a pick-up in both residential and non-residential construction activity as rebuilding got underway over 2012, and we expect further acceleration over the coming year. This will likely see capacity pressures build up in Canterbury and potentially the wider NZ economy.

Offshore risks stabilised

The improvement in the Eurozone situation has seen a reduction in offshore risks. Nonetheless, the issue of debt sustainability in Europe is far from resolved, with many Govts required to implement austerity measures over the coming years to rein in public debt. Similarly, while the US House of Representatives managed to reach an agreement to delay many of the automatic spending cuts expected to tip the US economy over the fiscal cliff, the issue of its debt ceiling has not been resolved.

Interest rates to remain low

Interest rates are expected to remain low over 2013, given the gradual nature of the recovery and subdued inflation pressures. One area which the RBNZ may start to become increasingly wary of is the acceleration in household credit growth, against the backdrop of a continued improvement in housing demand. The RBNZ has flagged the possibility of using macro-prudential tools to address these concerns.

Source: www.asb.co.nz