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focus

Coalition tweaks and turns

Seven weeks is a long time in politics, but that's how long it took to get a coalition agreement sorted between National, ACT, and NZ First.

Now that we've arrived at this juncture, the new government brings forth a series of policy augmentations and adjustments as a result of the coalition negotiations with ACT and NZ First.

FORSYTH BARR

...greater flexibility around the implementation of the Medium Density Residential Standards...

On a fiscal spending scale, both NZ First and ACT have emphasised restraint and a focus on cutting red tape and regulation. There is a focus on boosting productivity in the NZ economy, with a new agency responsible for assessing the quality of new and existing regulations to be set up under ACT leader David Seymour as the Minister for Regulation. The current Productivity Commission will be disestablished. There is a clear switch back to more private sector orientated policies, with the aim to boost competition; both the banking and grocery sectors are in the spotlight for further work.

National's promised tax cuts made it through the negotiation process but one of the ways to fund them — a 15% foreign buyers tax for properties over $2 million — has been ruled out. This means other funding sources and spending cuts will be required to cover the cost. It is worth noting that further income tax changes have not been committed to beyond 2024.

The new government has promised a 'mini-Budget' at the same time as the normal government Half-Year Economic and Fiscal Update (HYEFU) in December (date to be decided but likely mid-December), which will provide further clarity on the state of the government's books and the impact of various policy initiatives. We won't try to cover off all the different policy nuances in detail here, many of which still need further fleshing out, but instead focus on the coalition's changes in a few key sectors of the economy.

Overall, we don't see these policy changes as likely to have a material impact on NZ equity prices. From a broader NZ economy point of view the overall contribution to GDP from government is expected to be reduced in coming years. Whether the government's policy changes deliver positive benefits for the private sector, resulting in increased productivity and prosperity, will only become apparent in time.

Housing market

There have been a few changes to policies for property investors which in aggregate may prove mildly supportive of investors re-entering the market, providing a small tailwind for house prices. ACT negotiated to speed up the reinstatement of interest expense deductibility. This means full 100% deductibility will be restored in the 2025/26 fiscal year — a year earlier than previously planned — and with higher deductibility levels in the interim years (60% this year, 80% in 2024/25, 100% in 2025/26). The bright line test on capital gains tax on investment property will be reduced as National proposed, from ten years currently down to two years.

The new coalition is set to introduce greater flexibility around the implementation of the Medium Density Residential Standards (MDRS), which makes it harder to increase density of residential housing. To encourage councils to focus on speeding up housing consents, ACT's plan to share a portion of GST from new builds with councils is being considered.

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Infrastructure

National's original proposals to invest in thirteen new roads of national significance and four major public transport project upgrades have remained intact. The new government is also set to stop work on several major infrastructure projects, including Auckland Light Rail, Let's Get Wellington Moving, and Three Waters (with ownership of water assets returned to the councils). The establishment of a National Infrastructure Agency has also been agreed across parties. NZ First has negotiated a $1.2bn Regional Infrastructure Fund, which Shane Jones will oversee. In order to fund a large pipeline of infrastructure investment, it is expected that public-private partnerships and increased user charges on roads will be embraced.

Commercial Property

The ending of the commercial building depreciation tax break is set to remain, which was generally expected and has already been largely priced into property stocks. There is a clear focus on increasing investment in infrastructure and trying to remove red tape, which should be positive for the wider building sector. The repeal of the RMA reforms (scrapping the newly passed Natural and Built Environment and Spatial Planning bills) may happen pre-Christmas.

Aged Care

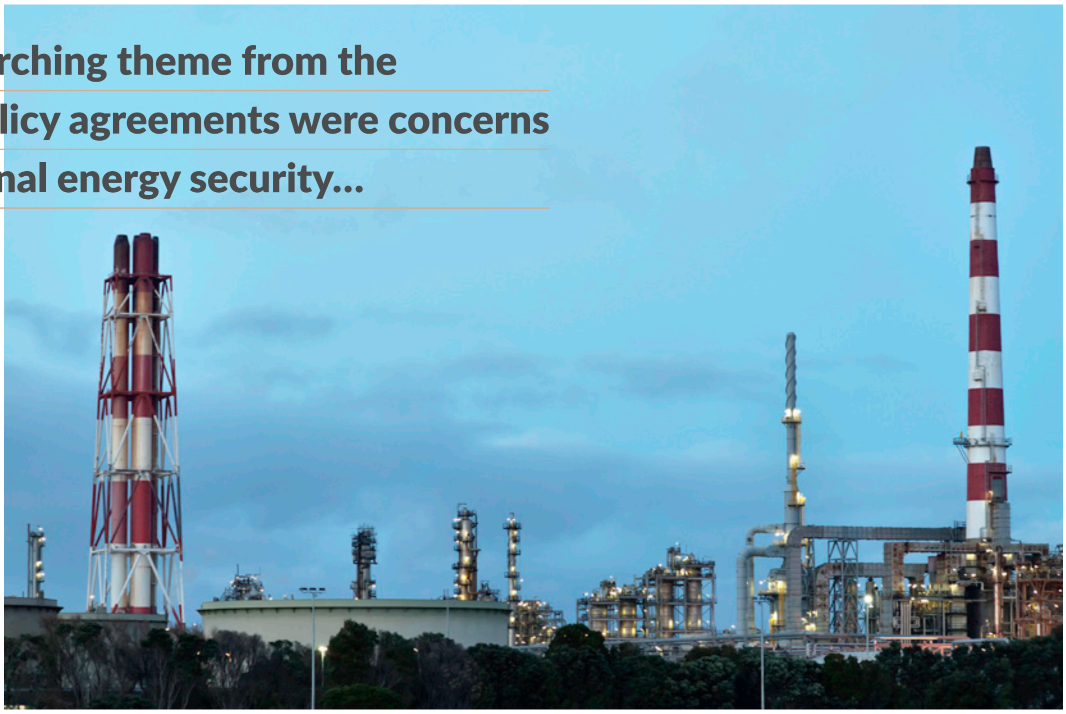
The coalition parties have agreed to maintain the retirement age at 65, with discussion of future adjustments higher being removed entirely. Otherwise there has been a general push, which agreed with NZ First, that several aspects of aged care will be further investigated. This includes the level of residential aged care funding, a select committee inquiry to aged care provision and a review of the Retirement Villages Act. NZ First is clearly going to push for further support in this area with a comment that the new government will, 'engage openly and constructively' with the sector. The net effect of the housing policies discussed above may inject some positivity into residential property prices, helping to support the outlook for aged care sector stocks.

Agriculture

The agricultural sector sees little change from National's original policies. National agreed to drop its commitment to remove two farming regulations for every new one introduced, but that is being replaced by a commitment to cut farming regulation. All in all, we don't see material stock price implications, but overall the new government's policies are likely to be viewed positively by farmers. National's key policies are focussed on assisting farmers to reduce emissions by lifting the ban on GE and GM technologies. This would allow gene-edited crops, feed, and livestock. On-farm agricultural emissions will come under a new carbon pricing system by 2030. There is also a strong focus on limiting the conversion of productive farmland to forestry for carbon farming purposes.

Energy

The coalition's agreement is largely as expected for the energy/electricity sector. The previous government's 100% renewable energy target, the Lake Onslow hydro project, and the ban on offshore



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oil and gas exploration are all getting tossed out. The new government will also halt the current review into the Emissions Trading Scheme, although may still consider the role of forestry as a form of carbon offset. More clarity is required on the latter point. There are various policies to further encourage investment in hydrogen as an alternative energy source, but this is something Labour was already progressing.

One overarching theme from the coalition policy agreements were concerns about national energy security. Whilst NZ First was campaigning on restarting the Marsden Point refinery, it has instead got the agreement to investigate the feasibility of this, with the focus on establishing a Fuel Security Plan. We do not expect restarting the refinery will be feasible. One beneficiary of the focus on fuel security could be Channel Infrastructure who is well positioned to provide extra storage if required, and this could lead to some opportunities for industry consolidation.

Zoe Wallis
Investment Strategist

Time will tell

The merry-go-round of politics is an important influence on the economy and can have a long-lasting impact on a country's prospects. However, the set of coalition policy agreements are largely tweaks around the edges of National's initial policies, and are likely to be taken in financial markets' stride, with minimal impacts across major sectors. Looking at the wider economic impacts: 'time will be the fairest and toughest judge' (Edgar Quinet). As always, if you have any questions around the impacts of specific policies on sectors and companies, please contact your advisor.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

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