

New Zealand Market Update: Q3 2024

SIMPSON
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Welcome to our Q3 newsletter. As part of our ongoing commitment to keeping our clients and alumni up to date, this newsletter provides a snapshot of the key commercial developments in New Zealand through Q3 2024.

It has been a tough year for New Zealand's economy, with a technical recession, low business confidence and high interest rates and inflation. However, there are indications that New Zealand may be past the worst. Inflation is closer to the acceptable 1-3% range, resulting in a small decrease in the official cash rate (OCR). M&A activity is starting to rebound, as poor economic conditions have led to lower target valuations and better deal opportunities for international investors.

Nearly one year after the election, the Government is pushing ahead with its programme to increase infrastructure investment and reduce red tape.

Major Deals

After a slow start to the year, M&A activity is starting to increase, with international investors seeing New Zealand as a more attractive investment environment, due to decreased market valuations and less competition for targets. Some key deals include:

- Renewables company, Manawa Energy signed a scheme implementation agreement to be acquired by Contact Energy for \$1.862 billion.
- Auckland Airport launched a \$1.4 billion capital raise to fund its terminal expansion.
- BlackRock made its first private credit investment in NZ, financing a \$235 million development in Auckland's Westgate Town Centre.
- Retirement village operator, Arvida recommended an acquisition offer from Stonepeak.
- Synlait Milk Limited agreed terms of a recapitalisation with its two largest shareholders and a refinancing of its bank facilities.

Economy

Economic conditions have been challenging across the board, with high interest rates and inflation, and low business and consumer confidence. Many companies have downgraded their earnings and liquidations continue to rise. However, both international tourism and global dairy prices have risen, and the OCR decrease has led to slightly lower interest rates. Some key points:

- Retail spending dropped more on a proportionate basis than during the Global Financial Crisis and nearly as much as during the 1980s sharemarket crash.
- Liquidations are rising across most regions in the country, with overall liquidations up 19% year-on-year.
- International tourism rebounded strongly, with \$2.6 billion in spending between April and June 2024, up 17% from last year.

Government

The Government has a firm focus on removing red tape and barriers to investment in New Zealand. After an initial focus on repealing changes introduced by the previous Government, the new Government is starting to speed up its programme of changes, and we are seeing more legislation being announced or introduced:

- Following the issue of a new ministerial directive letter to the Overseas Investment Office on 6 June 2024, every consent decision since has been decided in under half of the statutory timeframe. There were 16 foreign direct investment applications in July and August compared to 17 in the six months prior. This is leading to enhanced interest from overseas investors.
- The Government will act on all 14 recommendations in the Commerce Commission's report on competition in the banking sector.
- The Government plans to reform the Companies Act, modernising and simplifying it. The Government has asked the Law Commission to review directors' duties to see if the law needs to be changed to reduce risks for directors in company insolvency.
- Following the Court of Appeal ruling that Uber drivers are employees, not contractors, the Government has announced that it will change the law to place greater emphasis on whether there is a written agreement with the worker specifying that they are an independent contractor.

Infrastructure

New Zealand is facing an estimated NZ\$200 billion infrastructure deficit. The Government has recognised that international investment is critical to bridging this gap and is trying to address it by removing red tape and making international investment easier.

- The Government has established a new [National Infrastructure Agency](#) to unlock access to more capital for infrastructure and strengthen the Government's private finance and commercial capability.
- The [30-year National Infrastructure Plan](#) will ensure greater stability of infrastructure priorities to help New Zealand plan for, fund and deliver important projects.
- The [Government has launched a framework](#) to establish Regional Deals between central and local government that will drive economic growth and deliver the infrastructure New Zealand needs
- Cabinet has agreed to recommend a suite of [changes to the Fast-track Approvals Bill](#) which is designed to make it quicker and easier for regionally or nationally-important infrastructure projects to get consents.

Energy

The renewable energy sector remains a critical focus of the Government's emissions reduction efforts, with streamlined consent processes designed to encourage new renewable energy developments. Electricity price volatility due to hydro and wind shortages has brought competition in the electricity market into sharper focus, prompting reviews to ensure long-term affordability and sustainability.

- [New Zealand is facing a gas supply shortage](#) due to declining production and lack of investment, leading to high wholesale electricity prices. [The Government has introduced legislation](#) to reverse the ban on new offshore oil and gas exploration, which is expected to pass by the end of 2024.
- The Government plans to carry out a comprehensive review of New Zealand's electricity system to assess its reliability, efficiency, and future readiness. The review will consider structural options and address systemic issues in the electricity sector, with a focus on ensuring affordability and energy security amidst ongoing challenges. This is in addition to the [Competition Task Force](#), a collaboration between the Electricity Authority and the Commerce Commission.
- [Following significant price volatility](#) due to low hydro levels and less wind, persistent rain has bolstered hydro lakes, stabilising electricity prices. Between April and June 2024, extra coal and gas were required to generate enough power for New Zealand homes and businesses because of the low hydro lakes levels.



Conclusion

This quarter highlights the strength and adaptability of the New Zealand market, which is starting to recover from tough economic conditions. There are growing investment opportunities in the energy and infrastructure sectors, where sustainability remains a key focus.

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