



ANNUAL REPORT 2017

Contents

Chairman's report.....	2
Chief Executive's report.....	4
NZIER Board.....	5
Public Good	6
Membership services	7
Economic consulting	7
List of NZIER members	8
Summary financial statements.....	10

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About NZIER

- The NZ Institute of Economic Research Inc ([NZIER](#)) is an independent economic consulting and forecasting organisation specialising in quality economic analysis and research to help decision-makers in both the private and public sectors with strategic and policy advice.
- Established in 1958 and based in Wellington we are a non-profit incorporated society.
- We are independent of Government and any other organisation and we conduct our activities in an impartial and independent manner free from bias or any sectional interest.
- Membership is open to all.
- We devote a share of the surplus on our operations to fund our public good research and other activities.

Thanks

- Premium members, members and clients for providing the funding necessary to carry out the Institute's work.
- The New Zealand Treasury and the Reserve Bank of New Zealand for providing a grant towards the cost of the Quarterly Survey of Business Opinion.
- Dr Arthur Grimes, Professor Mark Holmes, Dr Girol Karacaoglu, Dr John McDermott and Mr Phil O'Reilly for being part of the Awarding Panel for the 2016 NZIER Economics Award.
- Paula Browning, Chief Executive of Copyright Licensing New Zealand and Chair of WeCreate, for providing the address at our 2016 Annual General Meeting, on the topic *STEAM not STEM: Arts & creativity for a stronger NZ economy*.

Chairman's report



Michael Walls, Chairman

Demand was weak in both the Auckland and Wellington markets during the first half of the 2017 financial year, but recovered strongly in the second half of the year. The recovery was not strong enough to close the gap against budget built up in the first half of the year, and the full year result was lower than anticipated.

Notwithstanding these adverse market conditions, NZIER has continued to invest in expanding the business. The investment in updating and upgrading our IT systems was completed during this financial year, we began to spend considerable capital to build a sustainable business in the South Island, and we increased our public good activity.

Financial results

NZIER's revenue during the 2017 financial year was 2% lower than in 2016 and total expenses were 4% lower. The lower revenue led to a deficit for the financial year of \$102,629 (prior year \$215,088) and an EBIT of \$86,734 (prior year loss of \$74,660) after applying \$463,956 (prior year \$357,494) to public good activities during the year.

NZIER made a provision of \$40,000 to fund the market testing phase of the establishment of the South Island business. This was funded out of reserves and approved by the Board. A statement of this movement is given in the Statement of Changes in Net Assets in the summary accounts. Adjusting for this finance flow reduces the deficit to \$62,629 and increases the EBIT to \$126,734.

NZIER's net asset position and its current ratio were both satisfactorily strong at the end of the financial year. Cash on hand reduced by \$173,151 over the course of the year, reflecting the low levels of activity in the earlier part of the year.

The abbreviated financial results are included in this report, and full financial statements are available from www.nzier.org.nz.

Public Good

A core element of NZIER's objectives is its public good programme, which seeks to educate and encourage debate on economic issues affecting New Zealand. NZIER funds the activities and projects which comprise the public good programme itself, and this ethos underpins the approach of the Board, the Chief Executive and the staff to all its activities.

During the 2017 financial year NZIER devoted \$463,956 to public good activities, a 30% increase over 2016. Whether a similar amount will be spent on such activities in the 2018 financial year will of course depend on the topics and opportunities available.

International affairs created some excellent opportunities to contribute to the public discourse, and NZIER's Insight articles on Brexit, 'Trumponomics' and non-tariff barriers received wide media coverage. Closer to home, NZIER's work programme on the Government's new social investment approach produced a major research publication (co-authored with Victoria University), an Insight paper and three workshops with key influencers.

NZIER's public good programme also funds the annual NZIER Economics Award. Its purpose is to recognise excellence in economics of relevance to New Zealand. The recipient is chosen by an independent Awarding Panel, to the members of which NZIER is grateful. In 2016, the Award was presented to Professor John Creedy. Professor Creedy has had a distinguished academic career and has published widely on topics as diverse as public economics, labour economics, income distribution and the history of economic analysis.

Governance

The Board was again busy during the 2017 financial year. The previous financial year's committee structure has continued, with the Audit, Remuneration, and Investment committees operating well. I extend my particular thanks, on behalf of NZIER, to the chairs and members of those Board committees.

I record with great regret the retirement of Sir John Anderson from the Board on 14 March 2017. Sir John was a thoughtful and committed Board member since 2011, and he brought to NZIER the benefit of his unusually wide experience in New Zealand and overseas business, particularly at the Chief Executive, Board, and Chairman levels. I and my colleagues, and I am sure NZIER members and staff, thank him sincerely for his contributions to NZIER.

I am, however, very pleased to announce that the Board has recently appointed Di McCarthy as a Board member. Di, who will stand for re-election tonight at this Meeting, as the NZIER Constitution requires, is a very experienced Director, executive and leader in business, science, technology and research. In 2016, she was awarded the honour of Companion of the New Zealand Order of Merit. Her residence in, and knowledge of, the South Island will undoubtedly also be valuable to NZIER. We look forward with eagerness to her continued contribution to the NZIER Board.

Thanks

On behalf of NZIER, and personally, I again thank all the Board members for their contributions to NZIER's success during the last financial year.

I would also like to extend my thanks to all the staff of NZIER and the Chief Executive, Laurence Kubiak, for their commitment to NZIER, and for their achievements on its behalf.



Michael Walls, Chairman
July 2017

Chief Executive's report



Laurence Kubiak, Chief Executive

Investment has been the theme of the last three years at NZIER. In 2014 we began to invest in the successful establishment of our Auckland office, 2015 saw substantial investment in the updating and upgrading of our IT systems, and this year the Board supported a project which sought to identify the best way for NZIER to establish a sustained business focused on the South Island. The Wellington office completed its move to new premises in the CBD during March 2017.

I am extremely grateful for the Board's foresight in continuing to invest in the future of an organisation which will celebrate its sixtieth year in 2018, despite the adverse commercial conditions which prevailed throughout the earlier part of the year.

Another feature of the past year is an increase in client-confidential work, so I will note the sectors which have been of importance during the year rather than specific projects. Wellington-based consultants have been very busy with important pieces of work in the primary and building sectors, while Auckland-based consultants have undertaken significant projects in infrastructure. The strong collaboration between the offices has been evident on notable projects in the energy and cultural sectors. Staff from the Wellington office reviewed the policy advice papers of some 20 government agencies, providing practical advice on their analysis and communication. We continue to extend this offering to clients in the local government sector.

Not all our work has been client confidential. Among our high-profile publicly available projects were the following:

- The first of our studies for the New Zealand Institute of Pacific Research, which examined the role of sovereign wealth funds in Pacific island nations.
- The Digital Nation New Zealand report we produced on behalf of NZ Tech, which estimated the footprint and impact of the technology sector in New Zealand.
- An analysis of the market structure of the life insurance sector, which raised important questions as to the sustainability of the current model.
- Evaluations of the value that dairy, trade and forestry contribute to the New Zealand economy.
- An analysis of the economic impact of improving the access to work of people with disabilities.

Our Membership Services programme continues to deliver value to members in all sectors across New Zealand. Our Quarterly Survey of Business Opinion, Quarterly Predictions and Shadow Board releases ensure that NZIER continues to have an independent and influential voice in the public arena.

2016/17 was a busy year for the public good programme. During the year we launched Data1850, a website which allows the main long-term data series relevant to the New Zealand economy to be manipulated and compared interactively in real time. Data1850 brings data to the people, and is already proving a valuable tool for students of economics and all those engaged in policy. We have also partnered with Victoria University to arrange a series of policy roundtables which facilitate dialogue between key policy advisors and influential thinkers. The topics at the roundtables have been varied, ranging from drug legalisation to immigration and inequality. As a contribution to the ongoing public debate on the last of these we have collaborated with Victoria University to construct a Gini series back to 1938.

I thank my colleagues for all they have done to sustain and enhance NZIER's already enviable reputation for authority, independence and rigour throughout the year. I also thank the Board for their guidance and support as we work together to grow the contribution, influence, and long-term success of NZIER.

A handwritten signature in blue ink, appearing to read 'Laurence Kubiak', written over a horizontal line.

Laurence Kubiak, Chief Executive

July 2017

Public Good

Each year NZIER undertakes or funds activities to promote and assist research into economic problems directly or indirectly affecting New Zealand. These activities are mostly funded from our own resources, and occasionally from sponsorship.

Public discussion papers

Part of our public good work involves preparing and publishing public reports on economic topics of importance to New Zealand. During the 2016-17 year the following reports were published:

- Assessing the stock of regulation - A tool for regulatory stewards
- Durable policy approaches: framework development and brief literature review
- Growing up in Auckland? Mapping drivers of residential land growth
- Quantifying the costs of non-tariff measures in the Asia-Pacific region

NZIER Economics Award 2016

The NZIER Economics Award was established in 1994 to promote and recognise excellence in economics of direct or indirect benefit to New Zealand.

The 2016 Award was presented to Professor John Creedy, one of New Zealand's most prolific academic economists as recorded by respected bibliographical website for Economics, RePEc.

Throughout a long and distinguished academic career, Professor Creedy has consistently addressed substantive and topical issues relevant to current policy. The coverage of these topics is extremely broad, including ageing, retirement incomes, savings, welfare, social rates of discount, tax policy (e.g. GST, excise taxes). His recent work on long term fiscal policy has made significant contributions towards enhancing policy advice in this area.

A copy of the full citation can be viewed at nzier.org.nz

Further Public Good work

Some further examples of our public good work during the 2016/17 year are:

- Launch of Data1850 website (www.data1850.nz)
- Preparing and publishing NZIER's *Monetary Policy Shadow Board*
- Preparing and publishing *Insights* - feature pieces on topical economic and policy issues
- Preparing and publishing NZIER's *Consensus Forecasts*
- Responding to inquiries from the public and students looking for information about the New Zealand economy
- Providing comment for the media
- Presentations at conferences and workshops.

NZIER's Public Good publications are available from www.nzier.org.nz/publications

Membership services

NZIER offers its members a comprehensive macro-economic forecasting service. Successful organisations need a clear picture of the economy, and how it is likely to develop. Economic forecasts can help our members understand the economic circumstances that are likely to prevail in the future, allowing them to take advantage of economic opportunities and minimise the impact of downturns.

Our standard membership services are listed below. In addition, we offer our members customised analysis and strategic briefings.

Information on becoming a member is available at www.nzier.org.nz/about/membership

Quarterly Predictions

Quarterly Predictions contains detailed and comprehensive forecasts for the New Zealand economy. Each issue contains forecasts for four to five years ahead, with focus on the composition and drivers of economic growth in the coming two years. Empirical analysis is complemented by an examination of related economic and policy issues, and any risks attached to the forecasts.

During the 2016/17 year issues 210-213 were published.

Quarterly Survey of Business Opinion

Begun in 1961, NZIER's *Quarterly Survey of Business Opinion* is New Zealand's longest running and most comprehensive business confidence survey. The resulting indicators are a valuable tool for assessing the current state of the economy, and forecasting short term economic activity.

The survey samples manufacturers, builders, architects, wholesalers and retailers, and service sector firms. Information from these industries provides useful indicators of future investment patterns, and the likely direction and composition of economic growth in coming quarters.

During the 2016/17 year issues 220-223 were published.

CPI Forecast Summary Table

This specialist web-based publication provides the forecasts of inflation in the Consumer Price Index (CPI) of all the major forecasting organisations in one place.

The CPI Forecast Summary table is published four times a year in March, June, September and December.

Membership products are available at www.nzier.org.nz/publications

Economic consulting

NZIER provides independent economic consultancy to businesses and government agencies.

We help our clients take advantage of opportunities and solve problems by applying our expertise in economics and knowledge of our clients' sectors.

Please visit nzier.org.nz for information on our consultancy services and examples of our reports.

Members 2016-2017

Premium members

Auckland Council
CCB (New Zealand) Ltd
Citi Investment Research and Analysis
Colliers International New Zealand
Commerce Commission
Electricity Authority
Farrow Jamieson
Greater Wellington Regional Council
Horizon Energy Distribution Ltd

Jones Lang LaSalle Advisory Ltd
Ministry of Business, Innovation & Employment
New Zealand China Council
New Zealand Rental Group
Reserve Bank of New Zealand
Sovereign Services Ltd
Stride Property Ltd
The Treasury
Vero

Standard members

AAPC Properties Pty Ltd
Absolute Value Ltd
AgResearch Limited
Airways Corporation of New Zealand Ltd
AllianceBernstein Australia Limited
ANZ Banking Group Ltd
APR Consultants Ltd
ASB Bank Ltd
Auckland University of Technology
Australian High Commission
Bancorp New Zealand Ltd
Bank of New Zealand
Bayleys Real Estate Ltd
Beef and Lamb New Zealand Ltd
Business New Zealand
Boffa Miskell
Cameron Partners Limited
Canterbury Development Corporation
CB Richard Ellis Ltd

Darroch Ltd
Deloitte
Deutsche NZ Ltd
Embassy of the United States of America
Ernst and Young
First New Zealand Capital
Fonterra Cooperative Group
Genesis Energy
Goldman Sachs New Zealand Limited
Grant Thornton NZ Ltd
Grundfos Pumps New Zealand Ltd
Holcim (New Zealand) Ltd
Holden New Zealand Ltd
Honda New Zealand Ltd
Infometrics Ltd
Inland Revenue Department
Jetro Auckland Office
JP Morgan
Kiwi Property Management Ltd

Kiwibank
KPMG
Laurion Capital Management LP
Lincoln University
Massey University
MediaWorks TV Limited
Ministry of Education
Ministry of Foreign Affairs & Trade
Ministry of Social Development
Ministry of Transport
National Australia Bank
New Zealand Refining Co Ltd
New Zealand Steel Ltd
New Zealand Trade & Enterprise
Office of the Controller & Auditor-General
Omnicom Media Group
Oyster Property Group Ltd
Pacific Aluminium New Zealand Ltd
Palmerston North City Council
Parliamentary Library

Powerco Ltd
PricewaterhouseCoopers
Productivity Commission
Rank Group Limited
Rider Levett Bucknall
State Services Commission
Statistics New Zealand
Steel and Tube Holdings Ltd
The Todd Corporation Ltd
Toyota New Zealand Ltd
Transpower New Zealand Ltd
UBS New Zealand Ltd
University of Auckland
Vector Ltd
Victoria University of Wellington
Waste Management NZ Ltd
Westpac
Wigram Capital Advisors Ltd

Summary financial statements

for the year ended 31 March 2017

Notes

1. General Information

The summary financial statements are presented in New Zealand dollars, which is the Institute's functional and presentation currency.

The summary financial statements have been prepared in accordance with FRS 43: Summary Financial Statements.

The summary financial statements have been extracted from audited financial statements authorised by the Board of Directors for issue on 4 July 2017.

The full financial statements comply with New Zealand generally accepted accounting practice and were prepared under the framework for differential reporting.

An unmodified audit opinion was issued on the full financial statements.

The summary financial statements cannot be expected to provide as complete an understanding as provided by the full financial statements.

The full financial statements are available on the NZIER website www.nzier.org.nz.

The summary financial statements are for New Zealand Institute of Economic Research (Inc.) as a separate legal entity. The Institute is designated as a public benefit entity for financial reporting purposes.

The accounting policies adopted in these financial statements are consistent with those of the previous financial year.

2. Public good work

In addition to direct operational expenditure of \$51,297 (2016: \$39,542) on a wide range of public good projects, the Institute incurred a further \$350,506 (2016: \$243,822) at normal charge out rates of staff time on Institute public good activities, \$42,377 for direct capitalised project costs (2016: \$74,130), and \$19,776 for direct capitalised wage costs (2016: Nil). The total resources applied to public good work was \$463,956 (2016: \$357,494).

Statement of comprehensive income

for the year ended 31 March 2017

	Note	2017 \$	2016 \$
Revenue from non-exchange transactions			
Other grants		37,500	37,500
		<u>37,500</u>	<u>37,500</u>
Revenue from exchange transactions			
Membership fees		291,450	319,564
Contract research income		4,589,107	4,622,628
Interest revenue		37,561	70,517
Other operating revenue		1,733	7,700
Sublease rental income		22,722	-
		<u>4,942,573</u>	<u>5,020,409</u>
Total revenue		<u>4,980,073</u>	<u>5,057,909</u>
Expenses			
Direct public good costs	2	51,297	39,542
Employee related costs		3,258,512	3,728,369
Contract expenses		525,731	377,701
Depreciation and amortisation		189,363	140,428
Operating expenses		1,038,247	961,779
Operating lease rental		19,552	25,178
		<u>5,082,702</u>	<u>5,272,997</u>
Total expenses		<u>5,082,702</u>	<u>5,272,997</u>
Total deficit for the year		(102,629)	(215,088)
Other comprehensive revenue and expenses		-	-
Total comprehensive revenue and expense for the year		<u>(102,629)</u>	<u>(215,088)</u>

SUMMARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Statement of financial position

as at 31 March 2017

	Note	2017 \$	2016 \$
Current assets			
Cash and cash equivalents		481,662	654,813
Investments		1,058,995	1,344,623
Receivables from exchange transactions		1,227,365	1,139,556
Accrued income		508,754	367,100
Prepayments		52,364	30,416
		<u>3,329,140</u>	<u>3,536,508</u>
Non-current assets			
Intangible assets		178,739	172,775
Property, plant and equipment		439,916	500,851
		<u>618,655</u>	<u>673,626</u>
Total assets		<u>3,947,795</u>	<u>4,210,134</u>
Current liabilities			
Trade and other payables		254,093	319,212
Employee entitlements		403,833	712,748
GST payable		132,801	134,018
Lease inducement		21,123	36,318
Revenue in advance from exchange transactions		576,083	345,347
		<u>1,387,933</u>	<u>1,547,643</u>
Total liabilities		<u>1,387,933</u>	<u>1,547,643</u>
Net assets		<u>2,559,862</u>	<u>2,662,491</u>
Equity			
Accumulated comprehensive revenue & expense		2,559,862	2,662,491
Total equity		<u>2,559,862</u>	<u>2,662,491</u>

Statement of changes in net assets for the year ended 31 March 2017

	Christchurch Reserve	Auckland Reserve	Accumulated comprehensive revenue & expense	Total equity
		\$	\$	\$
Opening balance 1 April 2016	-	-	2,662,491	2,662,491
Deficit for the year	-	-	(102,629)	(102,629)
Transfer for Christchurch Reserve	40,000	-	-	40,000
Transfer from Christchurch Reserve	(40,000)	-	-	(40,000)
Closing equity 31 March 2016	-	-	2,559,862	2,559,862
Opening balance 1 April 2015	-	250,000	2,627,579	2,877,579
Deficit for the year	-	-	(215,088)	(215,088)
Transfer for Auckland Reserve	-	(250,000)	250,000	-
Closing equity 31 March 2015	-	-	2,662,491	2,662,491

Cash flow statement for the year ended 31 March 2017

	2017	2016
	\$	\$
Net cash flows from operating activities	(363,416)	(154,264)
Net cash flows from investing activities	190,265	127,477
Net (decrease) in cash and cash equivalents	(173,151)	(26,787)
Cash and cash equivalents at 1 April	654,813	681,600
Cash and cash equivalents at 31 March	481,662	654,813

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