HUGOvision

Assessing the economic and political environment in New Zealand

May 27 2016 | Confidential to HUGO members

The Budget: low quality, job-rich growth
Page 3

The mid-term Budget positions the govt for election year largesse if fiscal conditions hold and provided a welcome distraction for the govt, which is in disarray on housing affordability. The economy will keep delivering for National and homeowners, but growth in the next two years is almost all driven by domestic demand, fuelled by tourism and high net immigration.

Entrenchment of the Maori Party
Pages 2&3

The benefits of being ‘at the table’ are apparent for the Maori Party in a series of policy gains in the Budget and in the govt’s determination not to back down on iwi involvement in resource management processes and water allocation. National would far rather keep the Maori and Act parties onside than have to chum up with NZ First after the next election.

TPP – in trouble again
Page 4

The mechanics of the US Congress passing the TPP during the so-called ‘lame duck’ session after the presidential election are far more complex than they appear, especially as both Donald Trump and Hillary Clinton have made trade policy an election issue.

Housing delivering for Labour?
Page 2

‘Angry Andy’ is under control and Labour’s housing policy and spokesman Phil Twyford make the party look better equipped to deal with housing affordability and supply than the govt. While Labour remains below 30% in recent polls, it may finally be getting its act together.

Grid pricing reform – still a way to go?
Pages 3&6

North Island industrial electricity users and network owners may yet challenge the Electricity Authority’s recommended outcome on a new transmission pricing methodology. However, sweeteners for cash-strapped industrials and a reduced benefit to the South Island make this version of a long-awaited reform more likely to succeed than previous efforts.

Taking the pulse on the Japan-NZ relationship
Page 6

At $6b annual two-way trade, Japan remains NZ’s fourth largest trading partner, albeit somewhat forgotten in the recent rush to China. Some of NZ’s largest companies are making high margins and still see opportunity in the slow-growing Japanese market.

Watch the carbon price now
Page 2

The Budget announced removal of the one-for-two subsidy to heavy CO_2 emitters while keeping the $25 a tonne cap for NZ Units, the only available units to NZ emitters until at least the 2020s. With these factors certain, the govt hopes the carbon price will head towards $20/tonne and encourage forestry planting.

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After the election

It's uncontroversial to suggest National will win the largest share of the vote at the next election, but polling this week underlines the calculations National is already making about how it might handle a post-election scenario.

NZ First's position is obviously handy at a bit under 10% of the vote, with a history of working with both National and Labour. However, National's first strategy will be to try and deny NZ First the balance of power. The deepening alliance with the Maori Party and natural alignment with ACT might get them over the line.

That **reliance on the Maori Party explains why they are so staunch on pressing on with the iwi participation proposals in the Resource Legislation Amendment Bill,** and why they are insisting on including Maori in any water allocation process they end up with. Note too the recent wins for the Maori Party in the Budget *(see breakout Budget section and freshwater reform item).*

While there are few policy differences with ACT, the party is still not making an impact in the polls despite David Seymour's efforts to refresh its image. To assist, **John Key may have his metaphorical "cup of tea" with Seymour much earlier in the year so that potential ACT voters understand that even though they might not live in Epsom, a vote for ACT may not be wasted.**

Meanwhile, in the background, to keep options open, several National MPs are maintaining social contacts with Winston Peters and NZ First MPs.

National MPs believe this strategy will be important because of the personal antipathy between Key and Peters.

The Hugo Handbook

The latest edition of The Hugo Handbook, a political and economic ready reference resource for chief executives, is now live on The Hugo Group website, www.thehugogroup.com.

Previously published in print form, the handbook will now be regularly updated online.

We draw your attention particularly to the The Hugo Who's Who section dealing with portfolio responsibilities of all political party spokespeople, Cabinet and select committee memberships, and the "People to go to" guide.

The handbook is now available on the website, under the Publications tab in the password-accessed members' only section.

If you need to be reminded of your username, please make contact with Tracey Gabbitas at tracey.gabbitas@thehugogroup.com. If you have yet to set your password, please use the "Lost your password" link on the Log In page and you will be emailed a temporary one, which you can reset to your preference.

Labour re-organising

Labour's chief of staff Matt McCarten has consolidated himself at the centre of the action in leader Andrew Little's office and has assumed personal control of much of Little's diary. This is coupled with a strategy to have Little become the focus of Labour's political presentation. At the same time the party's new secretary, Andrew Kirton, has taken up residence at Labour HQ, Fraser House.

Kirton , a returning kiwi, is a former head of public affairs at Heathrow Airport and apparently has already drawn on that private sector experience to comment unfavourably on Labour's byzantine, multi-layered decision-making process. Reform may be in the wind again.

While it has yet to produce positive poll results, Labour's performance on housing issues has been superior to National's. The govt is increasingly unable to defend the current outcomes in the housing market after eight years in office or to produce policies that will make any early dent in the problem. By comparison, Labour's housing spokesman Phil Twyford looks energetic, has new ideas and the populist KiwiBuild policy to call on.

Carbon keeps $25/tonne cap

Certainty about the future of the emissions trading scheme saw prices for NZ Units rise slightly after the Budget. The **govt expects the domestic carbon price now to start heading into $15-$18 a tonne territory that might entice plantation forestry for carbon sequestration.** Climate Change Minister Paula Bennett says no further reviews are planned in the "next 12 to 24 months", so the domestic price of carbon will remain capped at $25 a tonne for the foreseeable future. Bennett has axed the one-for-two subsidy for large emitters without export exposure. It will be phased out by 2019, reducing potential Crown liabilities by around $356 million at an assumed carbon price of $12 a tonne.

The current 50% subsidy will decrease to 33% for the emitter at Jan 1 2017, then 17% in 2018. At current total exposed emissions of around 40 million tonnes annually, generating 20mt of purchases under the subsidy, some 27mt will be required from Jan 2017, rising to 33mt in 2018 and 40mt in 2019.

There is little or no prospect of access by NZ emitters to international carbon markets until sometime next decade and an auction system is still on the drawingboard. That means NZU supply rests with those who currently own them. While $25 a tonne is not regarded as a carbon price likely to spur much mitigation or behaviour change to combat climate change, it will act as a valve in the event of a significant surge in demand for NZUs in the interim.

Water reforms

Bill English, Steven Joyce and Nick Smith have now all publicly floated the idea of an "economic" solution to water allocation issues. A political judgement is forming in the Beehive that the

The Budget

- Govt surpluses look more assured, opening options in out-years. Rating agencies should be pleased; DMO trims bond issues to $7b from $9b p.a.
- Treasury macro forecasts achievable but vulnerable, while also assuming spare capacity, low productivity growth;
- One more OCR cut, 2% inflation in 2018;
- Serious investment in cyber-security; catch-up in health spending; NZ now spending $16b p.a. on health and $11b on education;
- Nominal GDP nears NZ$300b in 2020

A **stronger trajectory for tax revenue is giving the govt more options**, despite low nominal GDP reducing fiscal drag. This year, debt retirement remains a priority. A 20% by 2020 net Crown debt target is talked up in this Budget rather than the siren call of a stimulatory infrastructure spending-up or tax cuts. **The scope to offer election year Budget bribes is apparent, but not overplayed at this stage.** Instead, extra spending on the public health system reflects the three-way pinch of real spending cuts since 2008, an ageing population, and rampant net immigration.

All the same, **extra spending in the next two years amounts to no more than mild fiscal stimulus. From 2018, the currently forecast fiscal impulse is contractionary.**

Inflation remains so stubbornly low that wage restraint is assumed to be embedded too. Higher wage demands may lag a tightening labour market if and when migration starts to slow. **The whopping increase to tobacco taxes will kick the CPI up usefully** in an area the RBNZ can't 'look through' for monetary policy purposes. That's helpful when achieving the 2% annual inflation target is pushed out a year to June 2018. Interest rates are going to stay low. **Tax cuts,** should they be offered, will target bracket creep/fiscal drag ahead of rate cuts.

Otherwise, David Lange would have called this a "boringly predictable" Budget – fiscally prudent while scratching political itches.

The big missing piece in the Budget is a response on affordable housing, which is fast becoming the govt's biggest Achilles heel. **When Andrew Little bellowed in Parliament that Labour would simply "build more houses", it sounded like a rare compelling political slogan from the Opposition.**

John Key called Bill English "the Maestro" twice in his Budget speech in Parliament. National's polling tells it **people trust English to run the economy well, even if they're going off Key as PM**, as public polls this week seemed to suggest is slowly happening.

Low-quality, job-rich growth

Medium term GDP growth forecasts can be summarised as "around 3% a year", unchanged from the average of the previous 20 years.

What's striking is **the soft foundations of the next two years' growth, based on domestic demand growth, fuelled by the 'wealth effect' from the widening impact of house price inflation, record migration** and ongoing **growth of low productivity jobs** in the hospitality and construction sectors. Tourism and inbound migrant growth are presumed to sustain demand for baristas, sales assistants, hotel workers, as well as carpenters for all the houses that NZ needs to build in coming years.

Net migration is forecast to peak at 70,700 in June this year. No one knows where it will go after that since forecasts during the current boom have been consistently wrong. Given the growth impulse that immigration is delivering, this govt is unlikely to try and choke it off. The Treasury simply assumes it falls to the long term net inflow of 12,000 p.a. by 2019.

Wins for the Maori Party

$40m more for Whanau Ora, where Bill English pioneered the social investment approach; $17.8m in capex and opex to establish a new Maori land registry to facilitate the objectives of Te Ture Whenua Act reforms; Cabinet solid on the RMA reform deal.

Don Brash "iwi/kiwi" campaign against Maori involvement in the allocation of water has not gained the traction they initially feared.

National grid costs

The Electricity Authority's recommended transmission pricing methodology for the national grid may solve an issue that has been unresolved for close more than 15 years. It tilts charges away from South Island generators, who have borne the full cost of the HVDC link, and toward customers in the upper North Island who have benefited most from $2b of upgrades in the past five years. Vector is already indicating it will submit against this approach. The shift would be achieved by moving to an area-of-benefit (AoB) charge plus a residual charge spread nationwide to cover Transpower's costs. Under a second proposal Transpower would administer avoided cost of transmission payments, which the authority says are currently applied even when they don't demonstrably reduce costs. Trustpower is already objecting to this. **Court action may yet prolong the argument.** Meanwhile, major NI industrials such as Norske Skog, NZ Steel, Oji, Refining NZ and KiwiRail all face very large increases in transmission charges. A beneficiary is the Tiwai Pt aluminium smelter, whose costs fall about $20m, well short of the $60m the smelter originally hoped for. **The EA proposes a "prudent discount policy" allowing industrial users to seek lower charges if their NZ operations are commercially challenged.** Expect a rash of applications.

TPP – a Doha in the making?

The Trans-Pacific Partnership's vital signs are again looking dangerously weak. Signatory nations outside the US always expected there would be no Congressional vote on the trade and investment pact before the mid-Nov US presidential election. However, they put some store by the expectation that TPP could sail through a vote in the 'lame duck' session between presidential elections.

At other times, that might have been a reasonable assumption. The lame duck session is a traditional time for passing politically unpalatable initiatives. **The problem is that trade policy – unusually – is a presidential election issue in 2016.** Slipping TPP through in the lame duck is far harder when both Donald Trump and Hillary Clinton have made opposition part of their platform, although reports from the US suggest Democrats who supported 'fast-track' authority for TPP have suffered none of the political harm threatened at the time. **Incumbent president Barack Obama has meanwhile been campaigning for the pact** in Japan and Vietnam this week, ahead of the G-7 global leaders' summit in Tokyo. Both countries are TPP signatories, with **Japan the second-most important after the US** and **PM Shinzo Abe still determined to ratify TPP in the Japanese Diet this year**. Domestic politics is holding that up for Abe, but it's a **timing issue rather than the bi-partisan impediment emerging in the US.** Vietnam is a pretender to China's former place as a low-cost manufacturer to the world and one of the biggest potential winners from TPP, so is keen to sign. Obama is talking up TPP as part of the US 'pivot to Asia' and sending US trade officials to TPP countries to accelerate early compliance. Meanwhile, **sacked Aust Treasurer Joe Hockey, now Aust ambassador to the US, i**s leading the argument against any change to TPP as already negotiated.

Economic outlook

The remaining partial indicators for Q1 GDP will appear over the next fortnight. Q1 growth has been difficult to read but the **latest indicators suggest the growth trend remains healthy despite ongoing weakness in global dairy prices** *(see below)***.** We are taking a cautious view that while the Treasury is forecasting a little under 3% growth annually in the next few years, it would be safer to plan on 2.5%. and a higher near term CPI than the Budget.

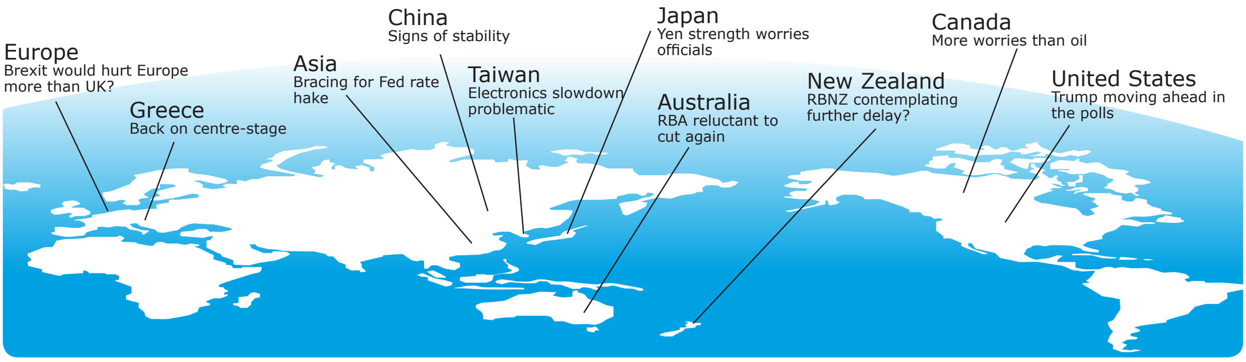
The Budget noted the potential for higher interest rates in the US this year and 'Brexit' to put a spoke in the wheel of major trading partner growth. But the greatest risk remains China, whose fortunes carry downside implications for the NZD. Debt levels in China are rising at an unsustainable pace and will constrain growth eventually. The yuan is over-valued and would be significantly weaker if market forces were allowed to operate. The PBoC is currently engineering a modest depreciation path for the yuan, but if large net capital outflows returned, then the ability to achieve such a gradual path diminishes. A weaker yuan would translate to weaker Asia-Pacific currencies like the NZD over coming quarters/years. While the PBoC will probably maintain control over its currency, a more forceful depreciation that spills to a weaker NZD cannot be discounted. The Budget projections put the TWI materially higher over the next couple of years than the Treasury was forecasting 6 months ago.

Migration hits new heights

NZ had new records for migration and tourism in April. Net migration was 68,100 in the 12 months through April, as migrant arrivals rose 9% to 124,700 and departures fell 2% to 56,600. Tourism also continued to boom, with visitor arrivals rising 11% to a record 3.27m in the year.

NZ consumer confidence fell in May, based

The world at a glance



on a decline in the ANZ-Roy Morgan consumer confidence index to 116.2 from 120 in April. The current conditions index fell by 4 points to 119.3, while the future conditions index decreased by 3 points to 114.3. Rising petrol prices, concerns about an accelerating housing market and the impact of lower interest rates on savings were cited among reasons for the downturn.

NZ inflation expectations edged up in the Reserve Bank's latest quarterly survey, after the previous survey's surprisingly weak outcome, but remained well below the mid-point of the central bank's target range. Expectations for inflation one year out rose to 1.22% from 1.09% in the previous survey, which was the lowest reading since 1994, while the two-year ahead figure barely budged at 1.64% from 1.63%. *(see Budget coverage)*

Dairy industry prospects

Fonterra raised its forecast farmgate milk payout for next season by less than expected to $4.25 per kilogram of milk solids for the 2016/17 season. The current season payout forecast is $3.90/kgMS. That will mark the third season of prices below the level required by most farmers to break even. The strain is now showing at alternative milk processors, such as Tatua, which is facing pressure in high-value markets from European and US producers offering lower-priced inventory.

The Budget forecast dairy prices will take two years to return to higher long term averages.

Economic indicators

Retail sales volumes rose 0.8% in Q1 on a seasonally adjusted basis, with real sales 4.8%. That's a reasonable start to the year and could help keep GDP in Q1 robust. After a weak start to the year, the BNZ-Business NZ **Performance of Services Index** came in at a creditable 57.7 in April, buoyed by sales growth and new orders.

Likewise, the **Performance of Manufacturing Index** (56.5) suggests the NZ economy was growing at a better-than-average pace as it headed into the second quarter of the year.

The volatile **ANZ job ads series showed its third monthly gai**n, with a 1.7% gain in April following +3.1% in March and +1.3% in February. ANZ-Roy Morgan **consumer confidence slipped sharply this month** to 116.2, which is still strongly positive, albeit a drop from 120.0 in April. **That's below the 118.7 long term average.**

April's merchandise trade figures were a bit surprising. The $292m surplus in the month exceeded the $25m surplus anticipated by the market and the deficit some had expected. Easter probably had some influence, but there seemed to be some genuine improvement too, with gains in several export categories offsetting weakness in dairy. Strong figures for exports of apples and kiwifruit were notable features. Nnet migration totalled 68,100 in the year to April, as migrant arrivals rose 9 % to 124,700 and departures slid 2% to 56,600. **Tourist arrivals rose 11% to a record 3.27 million.**

Trading partner growth

(2014 actual; 2015-16 Concensus Forecasts; 2017-18 figures Hugo estimates)

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
China	21.0	7.3	6.9	6.5	6.3	6.2	2.0	1.4	1.9	1.8	1.8
Australia	21.2	2.6	2.5	2.6	2.9	2.7	2.5	1.5	1.5	2.4	2.0
United States	14.5	2.4	2.4	1.8	2.3	2.4	1.6	0.1	1.2	2.3	2.2
Japan	7.6	-0.1	0.5	0.5	0.5	0.9	2.7	0.8	0.0	1.5	1.3
Eurozone	7.3	0.9	1.5	1.6	1.6	1.5	0.4	0.0	0.2	1.3	1.8
United Kingdom	4.0	2.9	2.3	1.9	2.2	2.1	1.5	0.0	0.7	1.7	2.0
South Korea	4.2	3.3	2.6	2.6	2.8	2.8	1.3	0.7	1.2	1.8	2.0
Indonesia	2.1	5.0	4.8	5.0	5.3	5.0	6.4	6.4	4.3	4.9	5.0
Hong Kong	1.9	2.5	2.4	1.7	1.9	2.1	4.4	3.0	2.4	1.9	2.5
Taiwan	2.8	3.9	0.7	1.3	2.1	2.0	1.2	-0.3	1.0	1.2	1.5
Singapore	2.7	2.9	2.0	1.7	2.2	2.2	1.0	-0.5	-0.3	1.0	1.5
Malaysia	2.5	6.0	5.0	4.2	4.4	4.9	3.1	2.1	2.5	2.7	2.6
Philippines	1.7	6.1	5.8	5.9	5.9	5.4	4.1	1.4	1.8	2.8	2.5
Thailand	2.0	0.9	2.8	2.9	3.3	2.5	1.9	-0.9	0.4	1.9	2.0
India	1.6	7.3	7.5	7.6	7.7	7.3	6.0	5.0	5.1	5.1	5.3
Vietnam	1.3	6.0	6.6	6.3	6.5	6.4	4.1	0.6	2.8	4.3	3.0
Canada	1.6	2.5	1.2	1.7	2.2	2.1	1.9	1.1	1.6	2.0	2.0
NZ Trading Partners	100	3.6	3.4	3.2	3.4	3.4	2.2	1.0	1.4	2.1	2.0
Forecasts for New Zealand											
Consensus		3.7	2.5	2.7	2.7	2.9	1.2	0.3	0.6	1.7	2.0
BNZ Forecasts		3.7	2.5	2.4	2.5	2.4	1.2	0.3	0.8	2.0	1.8
The World		2.8	2.6	2.4	2.8	2.7	2.6	2.1	2.6	2.8	2.7

Australia – an election + what the RBA does next

Aust voters go to the polls on July 2 in a rare double dissolution election that Liberal coalition PM Malcolm Turnbull hopes will secure his mandate. However, the race looks tight. Turnbull's recent policy fumbles play to a loss of national confidence that is expressed in unstable political leadership even as the economy adjusts to the collapse of hard commodity prices. Despite appearing to hold an unassailable mandate earlier in the year, Turnbull is neck in neck in polls with the ALP. Newspoll figures suggest **public trust in Turnbull's capacity to manage economic issues far outstrips Shorten's** and that his hawkish stance on asylum-seekers – an Aust political bellwether – is similarly strong.

Focus is on the RBA's next move after it overshadowed the federal Budget with a rate cut earlier in the month. For now, Aust inflationary expectations remain anchored in the target band of 2-3%. Combined with relatively solid economic growth performance and prospects, this points to a more tempered outlook for the cash rate. NAB continues to expect the cash rate to remain on hold this year.

The Fed – tightening while seemingly doing nothing

From credit spreads to the dollar, it appears the Fed has got far more "bang for its buck" when it comes to tightening than a simple rate hike suggests, says analysis by UBS. Financial conditions delivered more than 250bp of "hikes" through January, the global bank suggests. Most tightening was transmitted through wider credit spreads, the stronger dollar, and tighter credit standards. The Fed may have less to go with rate hikes this cycle.

The Japan-NZ relationship

Japan remains our fourth largest trading partner and is the woprld's third largest economy, with a wealthy population of quality and health-obsessed consumers.

The Hugo Group's Pattrick Smellie spent a week in Tokyo as a guest of the Ministry of Foreign Affairs and Trade and NZ Trade and Enterprise earlier this month.

The following are a series of observations about this important, somewhat overlooked relationship:

- Our relationship with Japan is deeper and very different from the nascent relationship with China. One example: Mandarin is not routinely taught in NZ schools, despite growing migrant Chinese population and trade ties. Japanese has been a part of the NZ school curriculum since the 1970s, when economic engagement with Japan began in earnest;
- **Japanese investors are trusted and even unnoticed in NZ**: e.g., Oji as owner of the Tasman, Kinleith and PanPac pulp and paper operations; Juken Nissho in Masterton, processing plantation forest wood; Champion flour mills bought by Japanese investors three years ago. Unnoticed compared to Shanghai Pengxin and Crafar Farms/ Lochinver;
- An ageing population, the upcoming 2020 Tokyo Olympics and Japan's highly developed demand for health-giving foods represents a high value opportunity for NZ ingredients makers, despite a shrinking population;
- **Corporate NZ is succeeding there.** Fonterra Japan, Zespri Japan, ANZCO, Air NZ all report highly profitable operations and solid market positions in their segments. High value, high margin offerings can succeed in an otherwise static market;
- Fonterra is already highly profitable (5% of global production sold in Japan for 20% of global ebit), with upside in sports and medicinal drinks ingredients (2020 Olympics/aging population, established in those markets);
- ANZCO is selling chilled grass-fed beef and lamb - a newly attractive category - at high premia and sees growth;
- Zespri says kiwifruit is a rare example of a growing fruit category in Japan;
- Growth opportunities often appear to lie more in identifying inputs to offerings from local Japanese manufacturers. A range of NZ functional food ingredient-makers reported strong interest at Japan's largest food ingredients fair in Tokyo last week. NZ was notable for involvement, with little or no Aust or Northern Hemisphere presence, beyond the US;
- Whether or not TPP succeeds, Japan's highly protectionist culture will erode. While the country may never accept high inward migration to counter its declining population, its younger citizens can be convinced that the 'old ways' are neither optimal nor personally fulfilling.
- Both Fonterra and Zespri face traditional local farmer and horticulturist opposition, but both appear well-placed for growth as the combination of an ageing workforce and the phenomenon of 'abandoned land' creates new land aggregation and investment opportunities. For Zespri, the prize is counter-seasonal fruit production in a category showing strong growth. For Fonterra, the gains are more likely to be political. Its programme to encourage Hokkaido farmers to break free of cooperatives that dominate feed sales in favour of NZ-style grass-fed dairying is positioning for a less subsidised future long-term.
- Note also that Air NZ's Japan services are both highly profitable and uncontested by other airlines when **inbound tourism to Japan is exploding.**

NZX beefs up price enquiry rules

NZX-listed companies are on notice that a blandly reassuring response to a public 'please explain' notice about a sudden share price movement is no longer enough. The securities trading platform operator, in a joint initiative with the FMA, will add to its public enquiry a confidential enquiry requiring very fast answers (within one trading day) from companies whose shares move unexpectedly. This secondary probe will assess "whether or not they are in possession of material information", confirm whether they are relying on exception clauses to the continuous disclosure rules, and to explain "the basis on which the issuer can continue to rely on that exception, and with reasons."

"NZX will be particularly interested in how the issuer has maintained confidentiality, as this is expected to inform an assessment of the risk that an information imbalance has developed in the market for the issuer's securities."

Planning the grid of the future

Transpower issued a study looking out 24 years, where demand has flattened after years of growth and investment, and there is constant fundamental uncertainty around the closure of thermal plants and the future of large industrial users such as the Tiwai smelter. From about 2020, it sees maturing, mainstream adoption of emerging technologies such as electric vehicles, solar power, home and network batteries and automated power management systems. By 2040 it expects advances in batteries and other energy storage systems will be capable of easing peak load and providing continuity of supply in times of outages.

Corporate actions

Paul Newfield has been named as the new chief investment officer at Wellington-based **HRL Morrison & Co**. Newfield joined the business in 2008 and has been involved in developing funds in NZ and Australia as well as handling relationships with sovereign wealth and superannuation funds. **Murray Horn** has resigned from the boards of **Wynyard Group**, where he was chairman, and from **Spark NZ,** as he scales back his workload because of ill health.

Fulton Hogan managing director **Nick Miller** will leave after seven years in charge and a total 18 years with the privately owned construction company, which has begun a search for a successor. Miller will stay on at the helm until March next year, or until a successor has been appointed.

Former tech company executive **Richard Dellabarca** has been appointed CEO of the govt-backed **NZ Venture Investment Fund**. Outgoing chief Franceska Banga has held the role since its establishment in 2001. The NZVIF's future remains in doubt with the govt undertaking a review due to be completed this year. Banga has said the fund is unlikely to become self-sustaining until 2025.

Orion Health is targeting a return to profit in 2018 after reporting a 26% increase in annual sales. The company expects annual revenue growth of more than 20% in the coming year and says its cash reserves are enough to fund its growth strategy. In a similar growth phase is **AFT Pharmaceuticals,** developer of the Maxigesic paracetomol/ibuprofen blend. AFT was profitable as a privately held drug developer based in Auckland, but is now burning IPO funds raised last year to pursue international growth and develop new, clinically approved medications. AFT posted an $8.9m operating loss for the year to March 31, while revenue rose 14 percent to $64m. Aust sales rose 19% to $31.2m while NZ revenue rose 5.8 % to $31.1m.

Abano Healthcare has agreed to sell its 50% stake in audiology company **Bay International** to interests associated with Peter Hutson for $32m. Hutson plans to use a mix of funding, including bank debt, but there has also been speculation he would sell down a stake in Abano of just under 20%. Hutson clashed with Abano in the past. Abano separately said full-year earnings would be at the top end of guidance.

Evolve Education Group posted a full-year profit of $15.6m, just shy of its 2014 prospectus target, which it said reflected one-time acquisition costs in buying more childcare centres. Revenue rose to $139m, ahead of forecast, from $32.9m.

Summerset Group is to build a second retirement village in Nelson after buying an 8-hectare site in Richmond, adding to its village in neighbouring Stoke. The company estimates Nelson's over-75 population will more than double by 2033. No price was disclosed for the purchase. **Ryman Healthcare** posted a record underlying annual profit of $157.7m, rounding out 14 straight years of earnings growth. Operating cash flow rose 34% to $312m in a year when growth was driven by record levels of demand and a buoyant housing market.

Blis Technologies expects to report a maiden annual profit in 2017, the first for the biotech company since listing 15 years ago after sales more than doubled in 2016. Listed film software and analytics company. **Vista Group has been named PwC Hi-Tech company of the year** in the annual Hi-Tech Awards with judges saying it truly has "worldwide potential". Its global market share in the large cinema market has grown to 38% and it now provides software to over 4,000 cinemas in more than 60 countries. This week it announced its first deal in Africa, saying its Vista Entertainment Solutions and Movio units won a contract to provide their cinema industry software to Ster-Kinekor, the largest cinema exhibitor on the African continent. **Precision Seafood Harvesting won the inaugural Maori innovation award** at the Hi-Tech Awards for its sustainable fishing technology that allows wild fish to be selected and handled with better care to lift their value. The company, a Primary Growth Partnership participant, uses a large flexible PVC liner to hold fish in the water while they are sorted by size and species.

Wellington International Airport posted a 29% gain in full-year profit to $12.5m as growth in international passenger volumes drove revenue. International passenger volumes rose 16% to 897,316 last year while domestic gained 4.6% to about 4.9m.

UDC Finance, whose owner **ANZ Bank NZ** is reviewing its ownership, reported a 4% decline in first-half profit on tighter lending and deposit margins as a result of increased competition and an increase in its charge for bad debts. Profit fell to $27.3m from $28.4m a year earlier. Operating income fell 1.9% to $59.5m while operating expenses fell 2.5% to $15.8m. **Heartland Bank** posted a 10% gain in nine-month profit while delaying a planned return to shareholders, saying market volatility had created opportunities for acquisitions which may be a better use of its capital. Heartland affirmed profit guidance of $51-$55m for the June 30 year, ($36m last year). **Tower** posted a wider first-half loss of $8.7m after a $19.6m writedown on the value of its IT system, which it says is weighing on its ambitions and needs improving. **Infratil** will spend A$392m for a 48% stake in Canberra Data Centres, teaming up with Aust govt pension fund provider **Commonwealth Superannuation Corp** to buy the data centre business. Infratil announced the deal after posting a 2.5% gain in full-year underlying earnings to $462m, meeting guidance and revealing a balance sheet with about $1b capacity to make acquisitions.

Steel & Tube, under FMA scrutiny for sales of seismic steel mesh that wasn't independently tested, said underlying earnings may fall 10-15% in this FY as margins contract and it incurs costs related to quality issues for the mesh.

Tourism growth

A study by NZTE estimates NZ needs 26 more hotels than are currently being planned over the next decade to meet growth in tourism in the country's five major tourist centres. Auckland, Rotorua, Wellington, Christchurch and Queenstown currently have just over 20,000 hotel rooms. The research suggests that by 2025, 5,171 additional rooms will be built, leaving a shortfall to a predicted demand of 4,526 rooms – or 26 hotels the size of Auckland's Sofitel Viaduct.

NZX vs Ralec

The Wellington High Court has heard there was a clash of wills between former NZX boss Mark Weldon and the proprietors of the Clear Grain Exchange, which NZX bought in 2009. Counsel for Dominic Pym and Grant Thomas has painted Weldon as being overly ambitious for the grain trading platform and downplaying gloomy projections for the business. But a witness this week, former NZX accountant Garth Taylor, described a culture clash between the cost-conscious NZX and Pym and Thomas, who wanted budget control and were turned down. Their counter-suit says NZX didn't invest in Clear as promised, denying it the chance to prosper and deliver earn-out payments. NZX has already spent $10m on the case, set to run 11 weeks.

Aviation

Airways Corp announces new pricing today, while budget carrier Hong Kong Airlines has become the latest carrier to offer a direct service to Auckland, starting Nov 10.

Ex-Fisher Funds CIO buys out Macquarie wealth clients in NZ

Macquarie Group agreed to sell the majority of its NZ retail wealth management business to local investment manager Warren Couillault and some of its employees, a former director of Fisher Funds.

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