

Budget medicine working for National?

Page 2

Govt ministers are reluctant to discuss their internal polling post-Budget and Labour says the English administration has only got a small bounce from the big-spending/tax-adjusting document. The only public poll since the Budget suggests National could govern on very similar terms to those it currently enjoys.

Jones delayed again

Page 2

Shane Jones's return to national politics was to have been announced in Whangarei on Thursday this week, but has been postponed. Jones continues to be seen in public with Winston Peters, so the plan to place Jones high on the NZ First list appears to be intact.

Infrastructure funding – plenty of tension

Pp 3&4

Finance and Infrastructure Minister Steven Joyce is playing hardball with the growing range of local govt pleas for capital expenditure support for both new and replacement infrastructure. However, the use of off-balance sheet Special Purpose Vehicles to help councils fund essential services is undergoing intense policy development.

Water allocation recommendations by Xmas

Page 3

Most delegates to a heavily attended Local Govt NZ symposium on freshwater management appeared surprised to learn Environment Minister Nick Smith has appointed a Technical Advisory Group to report by year's end on water allocation methods. Smith warns nutrient limits may be as significant as water limits in the allocation equation.

Message from Washington

Page 6

An unexpected element of US Secretary of State Rex Tillerson's messages for the NZ govt this week was his proactively raising the issue of Chinese influence in the Pacific. The issue came up when he was in Aust as well.

The Greens and Labour – strained but not terminal

Page 2

The Green Party believes it has paid a high political price for its efforts to align with Labour as a credible coalition govt-in-waiting and is unapologetic about its decision to appear to create Opposition disunity by voting for the govt's Families Package in the Budget. The party felt strongly that gains for low income households should not be rejected and says its MoU with Labour is intact.

Xero's first decade

Page 7

Cloud accounting software pioneer Xero celebrated its 10th anniversary as an NZX-listed company this week and last week, for the first time, brought its top 100 leaders to Wellington for several days of team-building and strategy sessions. Meanwhile, applications for a pilot visa programme for young entrepreneurs has attracted strong interest.

Post-Budget/pre-election positioning

Less than four months out from polling day, all political parties operate to the imperative that they must differentiate from even their closest allies to maximise their vote.

The govt's May 25 Budget set out National's stall with a big-spending, tax-reducing and credibly affordable raid on votes from middle NZ.

NZ First will ramp up the next phase of its appeal to the popular vote with the announcement that **Shane Jones** is on the ticket, although an announcement expected on Thursday was postponed earlier this week. Northland politics may be the explanation as Ngapuhi Treaty settlement negotiations went awry again. Despite no public statements, Winston Peters, is making public appearances with Jones. The most recent was at last Saturday's Lions vs Barbarians game in Whangarei, where Jones is expected to stand.

Act's **David Seymour** has been reprising Rodney Hide's strategy of portraying Act as a law and order party, backing much-robbed Auckland dairy owners, accusing the govt of being soft on crime and, for good measure, attacking the govt's Budget as a centre-left document. Bill English is "wearing the hammer and sickle on his sleeve", Seymour says.

In this context, conventional political commentators have tended to see the **Green Party's decision to vote with the govt on the 'families package'** element of the Budget as suggesting the MoU pact between Labour and the Greens is dead; that the Greens are in an 'every man or woman for themselves' mode now.

The reality is more subtle. The Greens, of all parties, are the least likely to participate in purely transactional political calculations.

Consider instead the possibility that by voting with their heads to support a package of measures to materially improve the circumstances of low income families, the **Greens have done no more than demonstrate an authenticity that Labour could not and, arguably, cannot demonstrate.**

That action has definitely frayed the relationship with Labour, despite Greens' co-leader James Shaw claiming the issue is now "water under the bridge" between the two parties. But it was not a calculated act on the Greens' part to undermine Labour or, for that matter, to signal a willingness to work with National.

It was a decision made from the principled position that gains for low income families should be supported, irrespective of the source of those gains. The Greens, as a second-fiddle Opposition party, can

afford to do that. Labour, as the principal party of Opposition, can't.

The problem for Labour is that its arguments against the Budget's families package are too easy to portray as taking money back from people who need it, and would rather have it themselves than accept a promise of better public services instead.

Add to this the **Greens' party list announcement: a triumph of retail politics** that took a leaf from Labour's success in promoting Jacinda Ardern to deputy leader, attracting solid media coverage that largely outshone tensions with Labour over the Budget.

The party's already dwindling image as the refuge of pessimistic catastrophists in favour of a liberal, gender-neutral source of attractive thinking from a new generation was cemented.

The Greens may not expect to be in a govt after Sept 23, but their long term positioning as a challenger to Labour's emerging 'natural party of Opposition' status has grown considerably in the last fortnight.

Nonetheless, the ultimate winner has been the govt. Its Budget has split the centre-left on the govt's own measures at a crucial time in the electoral cycle.

The polls and Labour

The 1News Colmar Brunton poll published this Wednesday is the first public poll since the Budget and made sobering reading not only for Labour, stuck at 30%, but also for the Greens, down 2 points at 9% support, and would **remove NZ First as a kingmaker if National achieved this week's 49% on election night.** The poll suggests the Budget has been well-received and strengthens National's prospects of both governing again, and governing without Winston Peters in tow. The Maori Party's 4% score in the March Colmar Brunton was confirmed as a rogue number. The party is back at 1% support.

Labour maintains that its own polling puts National at around 44% and that it shows the Greens ahead of NZ First. What **it doesn't say is what its own rating is**, but it is believed to be around the 29 – 30% mark being recorded in the two public polls issued over the past month. That means the party has made no progress since what its MPs believe was a disastrous election in 2014. That fact, plus Andrew Little's propensity to surprise MPs with some of his policy statements, seems to be **producing some distance between the caucus and their leader.** They're not going to dump Little, but they are prepared to talk about who might succeed him if he loses badly. The big question there could be whether Jacinda Ardern can be persuaded to stand for the leadership.

Auckland – slow progress on congestion-charging

After some excitable media speculation, the govt has announced a multi-year process to consider whether to introduce congestion-charging in Auckland, in line with recommendations in the Auckland Transport Alignment Project final report last Sept.

Key considerations are:

- access to alternatives, particularly public transport;
- fiscal neutrality – new charges would be offset by cuts to other roading taxes (RUCs, registration fees etc) .

The first phase of the project is to report before the end of the year and promises no more than to “lay the groundwork for assessing pricing options”. Infrastructure Minister Steven Joyce says “any decision on the use of a demand management tool like road pricing is still some years off”.

Last year’s ATAP report identified that while further road-building and public transport investment would be helpful in the next decade, traffic management technologies would inevitably be required to make a significant difference to the city’s congestion over the next generation. That report modelled the impact on travel times of charging motorists time-based tariffs of between 3 and 40 cents a kilometre for the most congested parts of the Auckland roading system. A staged approach would be required and such a system might take a decade to implement.

Innovation culture

Focus on improving outcomes from the country’s innovation eco-system appears to be gaining some traction. Indications from Callaghan Innovation are that newly appointed ceo Victoria Crone is having a positive impact on the sense of purpose within the organisation, which has struggled with very high levels of staff disengagement since its inception.

Crone, who started in Feb after an inter-regnum following the departure of Mary Quin last July, has already set strategy for the first 12 months, implementing a new set of collaborative tools, a refreshed drive for the sense of common purpose that has often eluded Callaghan, and is using real-time organisational tracking tools rather than annual staff surveys to gauge the impact of her efforts.

Equally significant is an unheralded MBIE review of connections between innovation-focused govt agencies next year, which should allow a fresh look at current and potential funding mechanisms, and at the relationships between Callaghan, NZ Venture Investment Fund and NZ Trade and Enterprise. All three recognise the need for more coordinated and

agile operations. Comments from Simon Bridges suggest a root-and-branch review of whether to continue with NZVIF, with all options from reconstitution to abolition on the table.

Among key questions for Callaghan is a review of its risk appetite. Crone regards Callaghan’s current failure rate, at around 5% of total funds granted, as indicating an undue level of risk aversion. Articulating an acceptable, even targeted, level of funding failure carries political risk that is often disproportionate to commercial risk. However, unless Callaghan can adopt a demonstrably entrepreneurial culture, it will remain hampered in its fundamental purpose.

Direct stakes in innovative enterprises looks unlikely, although the role of tax credits is likely to be up for review along with the current approach that only allows direct grants, requiring firms to apply for govt backing funding rather than making their own, unencumbered decisions.

Meanwhile, Spark ceo Simon Moutter’s vision for a new venture capital fund backed by major NZ corporates has foundered for lack of enough backers. Spark had Vector and Air NZ on board, but Moutter needed a larger group willing to put shareholder capital at risk in order to launch the fund.

Instead, Spark Ventures – the company’s higher risk venture unit – will commit some \$10m-\$12m p.a. in backing early-stage ventures.

Putting the best possible gloss on the outcome, Moutter noted growing R&D spending among NZ firms, some \$1.1b of other VC capital-raising in the last year, and the potential for “the govt’s intention to review the role of the NZVIF could also have an impact on how public and private VC investment evolve”.

Water politics

A little-heralded Technical Advisory Group is to report to the govt on water allocation in Dec, giving the fraught issue its best shot at progressing early in the next electoral cycle. While not a secret, the existence of the TAG appears not to have been publicly announced before Environment Minister Nick Smith drew attention to it at a heavily attended Local Govt NZ two-day seminar on water issues in Wellington last week.

Of particular note were Smith’s comments suggesting nutrient allocation may prove more significant than water allocation in deciding future water rights. Current users should be aware of Smith’s

State sector productivity

The Productivity Commission is to investigate public sector productivity in the **health, education, justice and social development** sectors.

“Current gaps in good measures of productivity limit assurance ... suggest an opportunity to achieve more from current resources,” its terms say. An issues paper will be published in **July**, with a final report due by **Aug 30 2018**.

warning that while nutrient discharge rights may be 'grandfathered', it can't be assumed that they will be allocated on the basis of current discharge levels. Rather, regional councils would be expected to determine good practice nutrient discharge levels and allocate to existing users against those levels.

The govt would want to "be cautious of rewarding those that have very high levels of nutrient discharge because they haven't been farming as well as they could", said Smith.

"People are increasingly recognising that as the caps on nutrients in catchments are being set, that the far more challenging issue is going to be how we allocate those nutrient rights within a catchment than what is the allocation of water?"

The nine-member freshwater allocation TAG is chaired by Environment Canterbury commissioner David Caygill and Smith regards ECan as leading in this area of policy and regulatory development.

'3 waters' funding also moving up the agenda

Local Govt NZ is increasing pressure on central govt to commit to helping meet what it says is at least a \$100b liability to replace and upgrade existing '3 waters' infrastructure around the country. Much of the current infrastructure dates from the 1960s and is nearing the end of its useful life.

LGNZ is pressing for co-funding arrangements, but key Ministers – in particular Steven Joyce – are expressing dissatisfaction both with what they see as manufactured urgency and poor spending priorities elsewhere, such as new entertainment complexes.

LGNZ is seeking a combination of co-funding and co-regulation, arguing that central govt assisted with the original infrastructure and that a shared approach to roading demonstrates how a more robust process for maintaining and extending essential local infrastructure can be managed.

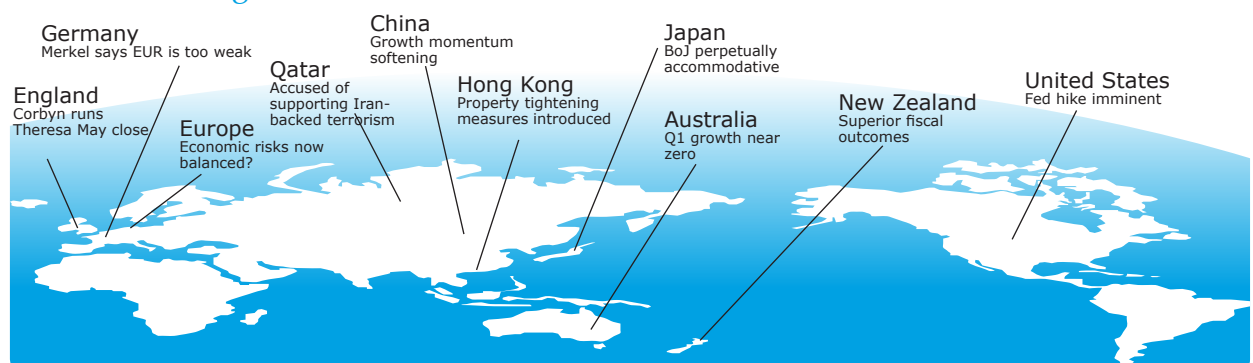
Auckland's growth and election positioning

Legislative constraints on Auckland's debt profile could be negotiable, allowing the city to borrow more than at present, with the use of off-balance sheet Special Purpose Vehicles emerging in comments in recent days from Bill English, Steven Joyce and Nick Smith, as well as the Local Govt Funding Agency.

English has cited "intensive discussions" with Auckland Council in the first few months of this year that have also clarified bankable infrastructure projects in the city. "There's plenty of finance around if you've got a transaction that makes sense to people," English says. That should help unlock the \$1b offered as lending to local govt – primarily Auckland – for infrastructure last year, but which has lain unclaimed because of local govt concerns about taking on additional debt. Unlocking new finance for urgent urban infrastructure is key to the **govt's willingness to gamble that current very high net immigration can be sustained**. English appears to be rehearsing election campaign attack lines on this theme. Expect to hear a lot more of this sort of thing: "We believe NZ can adjust to be a growing economy with a growing population," he said. "Our political opponents think NZ isn't up to it, it's too hard and the solution is to shut down the growth by closing off international investment, getting out of international trade, closing down migration and settling for a kind of grey, low-growth mediocrity where the best thinking of the early (19)80s sets our political direction."

Meanwhile, **political discipline among Auckland Council's centre-right bloc** remains elusive. Three National Party members of the Council – Linda Cooper, Denise Lee and Desley Simpson – all voted for the Council's targeted accommodation levy despite the govt being opposed. ■

The world at a glance



DOMESTIC ECONOMY

Economic indicators

Commodity prices rose 3.2% reflecting broad-based strength across local raw materials, led by apple and kiwifruit prices. The ANZ Commodity Price Index increased to 291.9 in May from 282.9 in April and was 26% higher than the same month last year. Apple prices rose 7.5% and kiwifruit rose 14%. The official **Terms of Trade Index** also rose to its highest level in 44 years.

The **volume of manufacturing sales** fell a seasonally adjusted 0.3% in the first quarter, the second straight decline, but values rose 2.8% due to higher prices. Meat and dairy product manufacturing led the decline in volumes in the latest quarter, falling 7.8%, although the sales values for those commodities increased 1.1%.

Wholesale trade rose in the first quarter of 2017, with gains in basic materials such as agricultural products, petrol and timber. Seasonally adjusted sales gained 2.1% in the three months ended March 31 after a 1.1% gain in the fourth quarter of 2016.

Business confidence rose in May and firms saw rising exports, employment, profits, prices and inflation, suggesting the domestic economy continues to enjoy reasonable growth. A net 15% of companies surveyed in the ANZ Business Outlook expect general business conditions to improve over the coming year, up from 11% in April.

Real estate and residential building

The value of **residential building work** inched

higher in the March quarter but total building values fell, weighed by a sharp fall in non-residential construction. The seasonally adjusted value of residential building work gained 0.1%, after a 2.3% rise in the fourth quarter of 2016.

Property values increased at the slowest pace in two years in May, with the steam starting to come out of Auckland's heated housing market, Quotable Value says. The QV house price index showed the nationwide average property value increased 9.7% in May compared with the year earlier, the slowest annual pace in two years. When adjusted for inflation, the annual increase was 7.4%.

Auckland's average house price rose in May from April, while sales and new listings jumped although they are still below the levels of May 2016, says realtor Barfoot & Thompson. There were 886 sales in May, up from 664 sales in April, which was the lowest for that month since 2008. Sales were down 32% from May last year. The average price rose to \$942,717, up 2.8% from April and up 7.8% from May 2016.

Fiscal policy

The **govt's operating surplus** came in ahead of the Treasury's forecasts in the May budget for the first 10 months of the current financial year as the corporate provisional tax take peaked a month earlier than anticipated. The operating balance before gains and losses (obegal) was a surplus of \$2.53b in the 10 months ended April 30, \$1.55b more than the surplus forecast in last month's budget documents. ■

Trading partner growth

(2015-16 actual; 2017 Consensus Forecasts; 2018-19 figures Hugo estimates)

Trading partners	Weights %	GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
		2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
China	23.7	6.9	6.7	6.6	6.2	5.8	1.4	2.0	2.1	2.3	2.4
Australia	20.8	2.4	2.5	2.5	2.8	2.6	1.5	1.3	2.2	2.2	2.4
United States	13.4	2.6	1.6	2.1	2.4	2.1	0.1	1.3	2.4	2.2	2.3
Japan	7.5	1.2	1.0	1.4	1.1	0.9	0.8	-0.1	0.7	1.0	1.2
Eurozone	7.3	1.9	1.7	1.7	1.6	1.4	0.0	0.2	1.6	1.4	1.7
South Korea	3.8	2.8	2.8	2.6	2.5	2.3	0.7	1.0	1.9	1.8	2.1
United Kingdom	3.7	2.2	1.8	1.7	1.4	1.5	0.0	0.7	2.6	2.7	2.3
Singapore	2.8	1.9	2.0	2.4	2.2	2.3	-0.5	-0.5	1.0	1.4	2.0
Taiwan	2.7	0.7	1.5	2.1	2.0	1.7	-0.3	1.4	1.4	1.5	1.2
Indonesia	2.2	4.9	5.0	5.2	5.3	5.1	6.4	3.5	4.4	4.2	4.6
Thailand	2.1	2.9	3.2	3.3	3.3	2.9	-0.9	0.2	1.4	1.8	1.8
Hong Kong	2.0	2.4	1.9	2.2	2.1	2.3	3.0	2.4	1.7	2.1	2.3
Malaysia	2.0	5.0	4.2	4.4	4.4	4.3	2.1	2.1	3.8	2.5	2.5
Philippines	1.6	6.1	6.9	6.5	6.3	5.9	1.4	1.8	3.3	3.3	3.1
India	1.6	7.9	7.0	7.3	7.6	7.4	4.9	4.6	4.8	5.1	5.1
Canada	1.5	0.9	1.4	2.4	1.9	1.9	1.1	1.4	2.0	2.0	1.9
Vietnam	1.3	6.7	6.2	6.5	6.4	6.4	0.9	2.7	4.2	4.5	4.5
NZ Trading Partners	100	3.6	3.4	3.5	3.5	3.2	1.1	1.3	2.1	2.2	2.3
Forecasts for New Zealand											
Consensus		2.5	3.1	2.9	3.0	2.8	0.3	0.6	2.0	1.9	2.0
BNZ Forecasts		2.5	3.1	2.7	2.5	1.8	0.3	0.6	2.1	2.1	1.8
The World		3.0	2.5	2.9	3.0	2.8	1.9	2.5	3.1	2.9	3.1

The Qatar crisis

The potential for the crisis that has erupted between the Gulf States to unravel into a new conflict overlaid on the Syrian civil war and the growing rollback of Islamic State appears to be very real.

In part, that is because US president Donald Trump has waded into this complex dynamic with an apparently one-dimensional view about the rightness of Saudi Arabia's position and a belief that Qatar is allied to Iran. Neither is a tenable or sufficiently nuanced view.

Trade policy and diplomacy

Gulf FTA delay

The long-stalled free trade agreement between NZ and the Gulf Cooperation Council faces further delay following the decision by other members of the GCC to break ties with Qatar over its connection to financing Iranian terrorism, says PM Bill English. "What looked like a smooth path a couple of months ago now looks like a pretty unpredictable one," said English.

Tillerson's messages

Not unexpectedly, **US Secretary of State Rex Tillerson** was not encouraging on the TPP issue during this week's stopover in Wellington. He told English and Gerry Brownlee in their talks that the US had as a priority bi-lateral trade agreements with Japan and Viet Nam, key members of the TPP. New Zealand is now focussing on the Pacific Alliance which involves Chile, Colombia, Mexico and Peru, which offers another avenue into the lucrative Mexico dairy market. Foreign Minister Gerry Brownlee and Trade Minister Todd McClay are to visit Colombia shortly for a Pacific Alliance meeting.

More significant from Tillerson was his focus on the role of China in the South Pacific – an issue English is not believed to have expected would be raised as forcefully in private talks as it was. He referenced efforts to encourage infrastructure financing for Pacific Islands projects through multi-lateral development banks to counter soft Chinese loans being used to buy political and economic influence in the region. **NZ has largely been able to avoid 'choosing sides' between the US and China**, but this new US focus may complicate that balancing act.

Australian economy

The pace of growth in the Aust economy eased to 1.7% in the year to March 31, its weakest since 2009, registering just 0.3% growth in the first three months of the calendar year and despite a 6.6% surge in the

terms of trade, although improved hard commodity prices are not yet expected to be sustained. Weather effects and one-offs are complicating interpretation of this relative weakness, with cyclones expected to disrupt coal production in the June quarter, which may also print soft. LNG exports should assist a rebound in the second half of calendar 2017, although their growth will likely peak next year along with dwelling construction activity. That leaves household consumption and business investment to determine the trend. A small 0.7% q/q lift in business investment may indicate the worst impacts of the collapse in mining investment are fading at the same time as non-mining profitability appears to be improving.

Some 17 of 20 industry groups showed growth in the March quarter, with fastest growth in added value seen in utilities, transport, wholesale and administrative services, offset by a 6.4% drop in farm GDP for the quarter.

If sustained, the prospects for a moderate cyclical upswing in non-mining investment appears credible in 2018 and 2019. Household consumption remains subdued, consistent with slow wage and household income growth, weak employment conditions and high levels of household debt.

Demand was especially strong in Victoria and South Aust in the quarter (both up 1.4%), while NSW and Queensland were flat in the quarter, and WA contracted slightly (-0.2%).

UK election

The voting was done but a result many hours away as HUGOvision went to press. All we can note is that Theresa May appears to have taken a leaf from the Malcolm Turnbull book of electoral strategy: calling a snap election to bolster a mandate and ending up substantially weakened. If sufficiently weak, it may even threaten May's leadership.

Whether the rise of Jeremy Corbyn is the result of a nostalgic impulse mixed with rejection of austerity, the contrast between a robotic versus an authentic leader, or as simple as a Tory govt that would be expected to be tough on crime failing in the midst of the recent terror attack will be debated. What is clear is that Jeremy Corbyn is now entrenched as the leader of the UK Labour Party and that policies of the old Left are moving back into the mainstream of British politics. That trend is too late to make a difference to NZ Labour's positioning at this election, and the political conditions in the UK are very different from NZ's. However, the potential for a harder left UK Labour to influence NZ politics by 2020 should be kept in view. ■■■

CORPORATE ROUND-UP

Primary Sector

The **Overseas Investment Office** hasn't yet received an application from the reported buyer of **Harvard University's** 5,500-head dairy farms in the South Island. US private equity firm KKR & Co was reported by Bloomberg as being close to making a US\$70m purchase of 8,500 acres of dairy farmland pending regulatory approval as part of a scaling back of the Ivy League university endowment fund's exposure to natural resources. China's **Heilongjiang Binxi Cattle Industry Co** won't rule out revisiting its takeover of Invercargill meat processor **Blue Sky Meats** now that the deal has OIO approval, having abandoned the bid in March when the OIO process missed a deadline. Binxi has a 20% stake in the company after lifting its shareholding in recent weeks. **Murray Goulburn Cooperative** will rethink its capital structure and how it shares profits with investors in the ASX-listed MG Unit Trust as Aust's biggest milk processor seeks to revive the business after last year's slump in global milk prices wrong-footed the dairy cooperative.

Dairy product prices inched higher at the Global Dairy Trade auction, rising for the sixth consecutive time. The GDT price index added 0.6% from the previous auction three weeks ago to US\$3,395. Some 22,004 tonnes of product was sold, up from 21,236 tonnes at the previous auction. However, whole milk powder fell, declining 2.9% to US\$3,143 a tonne.

The cow **slaughter season** got off to a slow start this year as good conditions prompted farmers to keep milking for longer, although that may have reversed in May, with processing likely to have reached a record. The season started off at its slowest pace in five years, with just 41,789 cows slaughtered in the fortnight to March 11.

Transport and tourism

Air NZ lifted its full-year guidance as it benefits from lower jet fuel prices and improving revenue. Based on the current market environment and jet fuel prices the company said its 2017 earnings before tax are likely to exceed \$525m. In Feb it said earnings would be in a range of \$475m to \$525m. **The airline's** gas turbines business has won four contracts worth up to US\$42m to service and overhaul turbines that power much of the **US Navy's** fleet. The contracts are for General Electric LM2500 Gas Turbines and will see Air NZ's Auckland-based gas turbines team carry out maintenance and overhaul work for the next few years. **Fliway Group** cut annual earnings guidance as growing capacity constraints squeezed the listed transport and logistics firm's margins, even as revenue grows with rising transport volumes. Net profit is expected to be between \$3.5m and

\$3.8m in the 12 months to June 30, down from a previous forecast range of \$4.2m to \$4.4m. Wellington businessman Ken Harris has sold **NZL Group** to New Plymouth-based **Transport Investments**, 10 years after leading a management buy-out of the transport and logistics firm. No price was disclosed. Harris said he planned to put the proceeds into container depot operator **ContainerCo** (NZL), which is co-owned by **China Ocean Shipping** (Group).

Banking and finance

KiwiSaver providers will be required to publish total annual fees in dollars and projected lifetime savings and retirement income in revised annual reporting to savings scheme members. Low-fee market entrant **Simplicity** disclosed it has more than 4000 members and has appointed high profile economist **Shamubeel Eaquad** to its board.

The **financial system** is sound but housing market vulnerabilities remain a key risk, the **Reserve Bank** said in its twice-yearly **financial stability report**. Since the last report, house price inflation has moderated and banks are more resilient to a market downturn, but houses remain overvalued in many parts of the country and some homeowners are vulnerable to a potential fall in incomes or a rise in mortgage rates, it said. The bank also published a consultation paper on **debt-to-income ratios**, which **Steven Joyce** welcomed while pointing out the RBNZ has said it would not be using the tool in current conditions. Submissions are due by Aug 18.

ANZ Bank NZ's UDC Finance unit lifted first-half profit 11% as it prepares for its sale to China's **HNA Group**. Net profit rose to \$30.2m, from \$27.3m a year earlier. Revenue was flat at \$60.4m.

Energy

The NZ division of **ExxonMobil**, the world's largest publicly traded oil and gas company, turned from a loss to a \$91m profit in 2016, bolstered by the impact of increasing oil prices on inventories in the year.

Mercury Energy raised FY17 guidance for the third time, reflecting high inflows and generation from its Waikato catchment hydro assets.

Telecommunications

The govt has announced the final details of the reform package for the **Telecommunications Act** that refines regulatory settings that will apply to fibre and copper fixed line services from 2020. The package includes an explicit willingness to regulate, if necessary. The **Commerce Commission** will collect and report in a more consumer-friendly way on the quality of retail services; be able to establish "regulatory codes to improve retail service

CORPORATE ROUND-UP

quality, if industry self-regulation is inadequate"; and periodically review the Telecommunications Disputes Resolution Scheme "to impose a credible threat of regulation if industry self-regulation is inadequate". **Stephen Gale** has been reappointed as the Telecommunications Commissioner. **Vodafone** has defended itself against claims by the Consumers Institute that its FibreX product, which uses co-axial rather than fibre-optic cable, is being misleadingly advertised.

Innovation

A four-year pilot 'global impact visa' programme to attract 100 young entrepreneurs received 300 applicants from more than 50 countries hoping to fill the 100 spots in the first year. The result mirrors other evidence that NZ's economic and political stability are proving comparatively attractive globally. The visa gives migrant entrepreneurs a pathway to residency after three years. Sectors targeted by appliances have included augmented reality, virtual reality, biotech and agritech, according to the Immigration Service.

Investors have marked down **Orion Health** since its May 30 announcement of a \$32.9m two-for-nine 90 cents per share rights issue pitched at a 21.4% discount to the \$1.20 per share price prevailing before the announcement. The issue puts a theoretical ex-rights price of \$1.14 on the shares, which had fallen back to \$1.05 by the middle of this week for a fall of 79% over the last 12 months. Net loss at \$34.2m was in line with revised guidance but total sales fell, cash burn grew, revenue for the current year is forecast to grow between 0 and 10%, and recurring revenues fell below 50% as a major customer merged and signalled a review of its patient management software. Orion is still projecting breakeven in the second half of FY18.

The govt's principal means of evaluating the success of **Callaghan Innovation** is the level of spending on research and development, Science and Innovation Minister Paul Goldsmith told the education and science select committee. Callaghan client firms have reported a 45% increase in r&d in the last two years, compared to an economy-wide average of 29%, according to official statistics.

Xero, which celebrated 20 years as an NZX-listed company this week, wants to boost its pool for directors fees 64% to cater for an extra two or three directors. Shareholders will vote at the July 12 annual

meeting in Sydney on increasing the fee pool to \$1.4m from \$850,000.

Courts and regulation

Frucor Beverage's long-running battle with IRD over the use of convertible notes more than a decade ago is set to hit the courtroom in 2018. The Suntory Holdings-owned drinks maker, whose brands include V, Just Juice and Fresh-up, has held out against claims by the tax department that its use of the notes constituted tax avoidance by letting companies juggle debt and equity components in their NZ divisions providing a tax advantage for their parent.

Steel & Tube Holdings is facing 29 charges of making false and misleading representations about its steel mesh product SE62.

Retirement and healthcare

Metlifecare has named Richard Thomson, Air NZ's general manager commercial, as chief financial officer starting in mid-Sept. **Vital Healthcare Property Trust** bought a rehabilitation hospital and adjacent land in Sydney for A\$23.5m, continuing its expansion of healthcare properties.

Corporate actions and results

Activity on NZ's stock exchange increased while the value of trading shrank in May, a month that delivered the first initial public offering of the year. The volume of cash trades on the NZX rose 13% to 196,467 in May from the same month a year earlier. The value traded dropped 15% to \$3.7b. **Coats Group**, the UK-based threadmaker that grew out of Guinness Peat Group, will enter the FTSE 250 as of June 19.

Cavalier Corp's outlook has deteriorated further since its last earnings downgrade in Feb and the carpet maker is warning it now expects to post a loss of around \$2m on a normalised earnings after tax basis in the year to June 30. **Restaurant Brands** boosted first-quarter sales by 67% to \$161m after the fast-food operator expanded to Australia, Hawaii, Guam and Saipan. Weak global aluminium prices saw underlying profit more than halve to \$24m in 2016 at **Pacific Aluminium's** Tiwai Point aluminium smelter. **Serco NZ**, which operates Wiri Prison in South Auckland, narrowed its loss in 2016 despite the loss of the Mt Eden prison contract. ■