HUGOvision

Assessing the economic and political environment in New Zealand

May 31 2019 | Confidential to HUGO members

The Budget is generous – there is a significant short term fiscal impulse that underpins GDP growth for now, but it fades. To the extent that it splashes a lot of new money on mental health services, family and sexual violence, trades training and rejuvenating the rail network, it makes potentially valuable contributions to national 'wellbeing', assuming the spending produces high quality outcomes. It is simply too early to know.

However, the govt remains hoist on the petard of promising 'transformational' politics. The Budget under-delivers in both form and substance on that measure. The much-vaunted new way to measure economic success, in this Budget at least, boils down to a hopeful stab at one metric relating to the position of children in low income households before and after housing costs. It's a start. It's not a transformation.

RBNZ governor Adrian Orr's frustration with the central bank's critics boiled over this week as he presented a Financial Stability Report in which his central message is that the NZ banking sector has done far less than it needs to in order to be appropriately insulated from physical or global shocks to the NZ economy. Meanwhile, Treasury secretary Gabriel Makhlouf's last month in the job has been blighted by the bumbling evident in the Budget leak fiasco.

Simon Bridges has shored up his leadership of the National Party over the last month. Regional party conferences went well for him and the Budget leaks appeared to galvanise his caucus, which acted with considerable unity and purpose to drive home the embarrassment caused to the govt. However, his claim that the circumstances surrounding the Budget leaks constitute "the most contemptible moment in NZ politics" was over-reach.

The Budget forecasts fiscal surpluses that are close to zero. If economic circumstances deteriorate, a return to operating deficits is on the cards. However, credit rating agencies are, for now, sanguine about the outlook painted in the Budget.

Education Minister Chris Hipkins has doubled down on his determination that the teachers' pay offer is as good as it gets. The trouble is that teachers are equally entrenched in their determination to wring an improvement out of the govt. The unity across the sector means a different dynamic from the nurses strikes last year, which faltered on the quality of union leadership.

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A generous mid-term spend-up

The political framing was 'wellbeing' and the govt's focus on social services and public infrastructure was to the fore.

But was it a substantially different Budget for the fact of its claim to be approaching wellbeing differently from previous govts?

Not really.

If anything, it was an unusual mid-term Budget for the extent of its fiscal largesse, although the real fiscal force is occurring in the current financial year.

The **annual growth in core Crown expenses is expected to be 8.3%** in the year to June this year, **6.8% in the following year and 6% in the following two years.** This compares to annual average growth of 2.9% over the previous five years.

The annual operating allowance has been increased from $2.4 billion to $3.8b in the current Budget and next year the operating allowance has increased from $2.4b to $3b. A further $1.7b has also been added to the multi-year capital allowance for future budgets.

Forecast surpluses are much smaller than in the December fiscal and economic update, raising the potential for the OBEGAL measure to slip into deficit if the economy slows in response, most likely, to global factors.

Wellbeing metrics

The Child Poverty Report was a new element in the Budget, mandated for inclusion by last year's Child Poverty Reduction Act.

It contains **serious consideration of only one new metric** – children in poverty before and after housing costs. A third key metric – numbers of children living in "material deprivation" – is as yet unmeasurable.

The 2017/18 baseline for children in poverty 'before housing' (BHC) costs puts some 16.5%, or 180,000 children, in poverty. On an after-housing costs (AHC) basis, some 22.8%, or 250,000 children, were living in poverty.

In 2020/21, the govt targets reducing the BHC cohort to between 10.1% and 12.7% of children. Treasury projections are for that target to be met, coming in at around 11%.

On an AHC basis, the estimates suggest child poverty rates by this measure will come in just below the top of the target range of between 15.2% and 18.6%, which would reduce the total of 250,000 children living in poverty to between 172,000 and 212,000.

However the target of reducing the numbers of children living in material hardship – a measure based on children who lack six or more of 17 indicators of material wellbeing – is unable to be modelled at present.

By 2028, the govt targets 5% of children still in poverty on a BHC basis, 10% on an AHC basis, and 6% in material hardship.

The way the Budget discusses the govt's ongoing poverty reduction role is instructive. It says ongoing intervention to assist people on the lowest incomes is almost inevitable in a country "experiencing broadly favourable economic conditions and wage growth".

That's because "the general pattern is for incomes in the middle of the income distribution to increase at a slightly faster rate than incomes at the bottom".

"As a consequence, without specific government intervention, rates of child poverty on the moving-line measure will generally gradually increase over time."

Surpluses fall to the margin of error

Over the next four years, the Obegal – **the Ebidta of govt accounting** – shrinks by $9.2b to be **just 0.4% of GDP**.

It would take very little in the way of global trade tension, unexpected climatic events or an earthquake to turn that into a deficit.

But as Grant Robertson signalled with last week's careful change to the Budget Responsibility Rules, the **govt is a little more confident to let rope out on fiscal expansion**. If anything, constraints on the supply-side prevent more spending.

One area where this constraint meets wellbeing is in mental health in the construction sector.

There is **acute awareness of the high suicide rate in the industry**, caused by an industry that lacks scale, sophistication and certainty of payment. A wellbeing Budget seeks to address this through increased investment in trade training. This is happening. The Construction Accord – a non-Budget private sector initiative meshes with that.

Accordingly, very significant sums have been invested in mental health services.

The Budget forecasts show smaller surpluses as spending ramps up.

"We are maintaining sustainable surpluses over the period and keeping the debt at manageable levels," said Finance Minister Grant Robertson.

Treasury is now forecasting a surplus in operating balance excluding gains and losses of $3.5b in the year to June 2019, wider than the $1.7b it forecast in December.

However, surpluses then narrow to $1.3b the following year **before ticking up to $6.1b in 2022/23.**

Its Dec forecasts were for a **$4.1b surplus in the year to June 2020. It was forecast to be $8.4b at the end of the forecast period.**

The initial narrowing in the surplus is a result of expenses outpacing tax revenue growth. Net operating cashflows are in surplus across the forecast period but capital spending is expected to exceed operating cashflows until the last year of the forecast period.

Residual cash deficits are expected over the next four years before returning to a surplus in 2022-23. Treasury forecasts indicate residual cash deficits of $10.6b across the forecast period.

"These residual cash deficits are funded from additional borrowings and utilising financial assets," the Budget says. As a result, net core Crown debt is forecast to increase by $11b, although it falls to 19.9% of GDP in the year to June 2022.

This is why a return to OBEGAL deficits looks entirely possible, although rating agencies **Fitch and S&P appeared sanguine about that prospect.**

In nominal terms, **core Crown expenses are expected to increase by $25.1b over the forecast period to $105.7b** and "a key driver of this increase is govt decisions," Treasury said.

However, there should be a larger tax take over the period, bolstered by a tight labour force, employment growth, robust domestic consumption and improving corporate profits.

By the year to June 2023, Crown tax revenue is forecast at $105.6b vs $84.7b in the year to June 2019.

The impact of spending decisions on the fiscal balances is exacerbated by the fact that the govt has not so far come up with any significant cost savings to limit the upward push on spending nor were there any announcements of ways for the govt to raise revenue.

Growth robust but slowing

Treasury forecasts GDP growth of 3.0% for the year ended June 2020. Growth of 2.8%, 2.4% and 2.4% are then forecast for the June years 2021, 2022 and 2023 respectively.

While the unemployment rate is forecast to fall to meet the govt's target of 4% in the current parliamentary term, it rises again slightly in the out-years to 4.3%.

That is despite a capital allowance for the 2019-22 period of $14.8b, $1.7b more than was foreshadowed in the the December Budget Policy Statement.

But wage growth in nominal terms remains above 3% throughout the forecast period, house price increases continue, but at sub-5% annual rates, household savings rates deteriorate slightly through to 2023, and the current account balance on the balance of payments remains manageable at a little above 3% over the forecast period. Inflation and interest rates are relatively stable, although the 90 day bank bill rate – a proxy for the OCR – rises from 1.8% in the current year to 2.6% by 2023.

Business investment is very weak at 0.7% in the current year, rebounds over the next two, and then fades in 2022 and 2023, with forecast rates of 3.8%, 3.6%, 2.4%, and 2.1% through to fiscal 2023.

Borrowing programme

The govt bond tender programme has increased by $2.0b to $10.0b in fiscal 2020. It's the same story for 2021. The 2022 programme increases by $1.0b to $8.0b.

Key announcements for business

The Budget was not business-focused, although the capital works programmes in rail, hospitals and schools, among other areas, will continue to fill the infrastructure pipeline. Auckland's City Rail Link gets the central govt funding it needs to meet cost over-runs.

In a Budget bereft of mentions of the trouble KiwiBuild programme, it's notable that the funding for Crown Infrastructure Partners – now charged with delivering urban infrastructure as well as completing the UFB rollout, saw last year's $600m capital allocation cut to $300m.

That appears to be a tacit admission that if housing development isn't going to occur as quickly as expected, then the budget for preparing brownfield and greenfield areas for suburban development will be significantly lower than anticipated.

Elsewhere, announcements included:

- $300m venture capital fund targeted at early stage, post start-up businesses, funded in part by the NZ Venture Investment Fund's existing $60m base and by $240m of funds that would have gone to the NZ Super Fund and are being 'repurposed' to create several VC funds;
- $229m over four years for sustainable land use initiatives, with focus on protecting and restoring wetlands and at-risk waterways. Environment Minister David Parker said the freshwater elements of the package "addresses gaps and inconsistent practices across regions in relation to the development and implementation of freshwater rules";
- $25m over four years for commercialisation of innovation initiatives;
- $20.7m for NZTE to boost assistance to exporters;
- $50m capital allocation and $25m opex for Callaghan Innovation to advance its long-stalled desire to revamp its Gracefield campus, in Petone;
- $9.6m additional support for the NZ Food Innovation Network;
- almost $200m is set aside to fund the govt's controversial vocational training sector reforms.

PGF now two-thirds committed

Commitments made by the Provincial Growth Fund now amount to just over $2b, or two-thirds of the $3b total available for allocation.

One-tenth of that total – $300m – was committed in this year's Budget to further regional rail initiatives, adding to swag of previous investments in KiwiRail by the PGF.

Orr's frustration boils over

RBNZ governor Adrian Orr's frustration with the negativity towards the central bank's new capital adequacy ratio proposals boiled over in presentations following this week's Financial Stability Report.

In his media conference, he directed a strong attack at a journalist who has taken an aggressive line on the proposals. And at the select committee hearing later on Wednesday, Orr talked openly about how all NZ economic experts who could advise the central bank on its proposals had been "bought" by the private banking sector.

Both Orr and deputy governor Geoff Bascand are showing signs of the same bunker mentality that bedevilled Graeme Wheeler's governorship, a period of hyper-sensitivity and occasional misjudgement in dealing with critics.

Orr believes passionately that the NZ banking sector should be one of the world's most capital-intensive because of the combination of risks the country faces.

He has also **marked out his governorship** as different from all previous governors since the passage of the 1989 Reserve Bank Act **by making financial system stability his primary focus.** He has been almost dismissive of the amount of focus financial markets place on the RBNZ's monetary policy announcements, given how infrequently it changes benchmark interest rates and how little relative impact a rate change can have on the NZ economy.

However, he argues strongly the NZ financial system has done "too little" to shield itself from a future financial crisis, and comes close to accusing the banking sector of smugness over the relative lack of damage to the NZ financial system during the 2008 GFC.

He is both dismissive and fed up with the 'big four' banks' claims that the proposed capital ratio changes will slow the NZ economy. He argues the NZ banking sector is the world's third most profitable, that the transition will occur over years, and that therefore any immediate change to lending or savings rate margins would be a commercial decision rather than one forced by regulatory change.

What annoys him is that too few people, including in the media, are either listening or reporting that viewpoint.

Regrettable swansong for 'Gabs'

After eight years as secretary to the Treasury, Gabriel 'Gabs' Makhlouf would have hoped to put the seal on the first Wellbeing Budget as a job well done before departing the role in less than a month, on June 27. His next job is as governor of the Irish central bank.

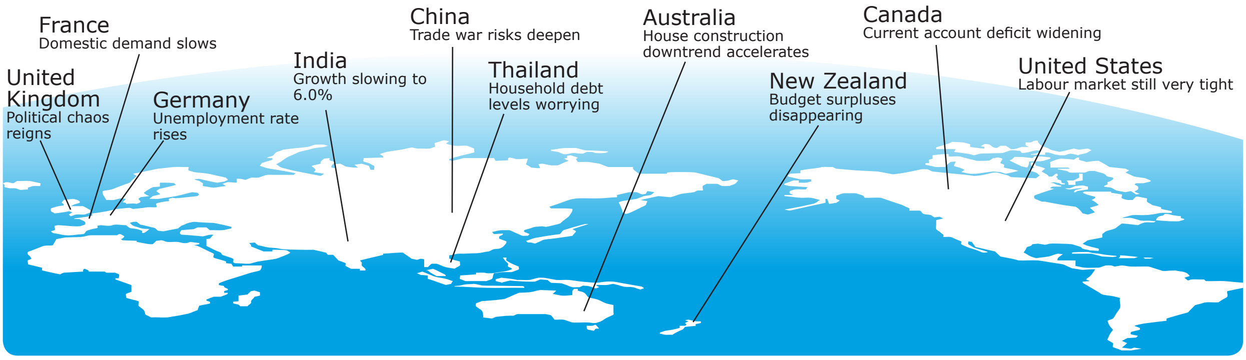
As HUGO*vision* went to press, Makhlouf remained in his post, but Grant Robertson's statement saying he was "very disappointed" by both the security flaws in the Treasury website and the over-eager involvement of the police in the alleged Budget 'leaks', suggest he is on thin ice.

However, S**imon Bridges's claim that this was "the most contemptible moment in NZ politics" was a shark-jumping moment.** It is no such thing. While National has attempted to claim that the govt tried to smear the Opposition with claims of a criminal act, Robertson was careful not to do so.

UDA legislation progress

The first in a two-part legislative process to create a central urban development authority was introduced to Parliament. The **Kainga Ora-Homes and Communities Bill** will establish the authority, which will be operating by Oct 1. A second tranche of legislation setting out the authority's special powers to override local govt plans and accelerate urban development initiatives will be introduced before the end of the year.

The world at a glance



Hipkins digs in on teacher pay

Education Minister Chris Hipkins appears to be willingly digging himself in over the govt's resistance to teacher pay claims.

While a minister might be expected to emphasise the size of the offer and the fact that the cupboard is bare for any more, he did not have to repeatedly use the line this week that: "No one else in NZ is going on strike over a $10,000 pay rise."

The degree of entrenchment on both sides suggests the issue will run for some time unless a circuit-breaker unexpectedly emerges.

Christian confusion

Alfred Ngaro's interest in forming his own Christian faith-based party as a possible coalition partner for National was even more short-lived than we had anticipated. The National list MP thanked National for the space to consider the option but that he was staying put.

As if to demonstrate the minefield that religiously affiliated parties can be for a major party seeking friends, Ngaro's musings coincided with the heads of the **Destiny Church** announcing the formation of the **Coalition Party**. That will be led by the church's founder Brian Tamaki's wife, Hannah, whose political skills were not immediately apparent beyond a certain naive charm. RNZ reported that Destiny has received warnings from the Dept of Internal Affairs for filing late returns, and that the 2017 filings for the Auckland branch of the church - its largest funding source - showed a drop in income from $4.4m in 2016 to $1.9m in 2017. That produced a deficit of $202,398 and a "material uncertainty" warning from its auditor, Grant Thornton. Tamaki has been aggressively campaigning to have the govt fund the church's 'Man Up' rehabilitation programme in prisons.

Bridges shores up leadership

Simon Bridges has seen off Judith Collins's nascent challenge to his leadership and his performance has improved over the recent round of regional conferences. Peace appears to be breaking out with the possibility that even Gerry Brownlee – one of National's most experienced MPs – may be brought back into the inner circle. National is starting to focus on the election campaign, which Paula Bennett wants to run.

Tweak to the BRRs

The govt has announced a cautious relaxation of its Budget Responsibility Rules. It remains committed to reducing net debt to 20% of GDP by 2022 but is looking at a future net debt range of 15-to-25% after that time. Other elements, such as govt spending as a proportion of GDP, are likely to be reviewed before the next election.

Mosque attacks

Confidential polling for **Tourism NZ** in major inbound tourism markets on the impact of the Christchurch mosque attacks on willingness to holiday in NZ shows little, if any, impact.

Trading partner growth

(2017-2018 actual; 2019-2021 Hugo and Consensus Forecasts)

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
China	29.1	6.8	6.6	6.3	6.1	5.8	1.6	2.1	2.3	2.2	2.4
Australia	19.1	2.4	2.8	2.2	2.6	2.6	1.9	1.9	1.6	2.1	2.4
United States	11.5	2.2	2.9	2.6	1.9	1.8	2.1	2.4	1.9	2.1	2.3
Japan	7.3	1.9	0.8	0.6	0.4	0.7	0.5	1.0	0.6	0.9	0.8
Eurozone	6.5	2.5	1.8	1.1	1.3	1.2	1.5	1.7	1.4	1.4	1.6
South Korea	3.6	3.1	2.7	2.2	2.3	2.5	1.9	1.5	1.0	1.7	2.0
United Kingdom	3.2	1.8	1.4	1.4	1.4	1.6	2.7	2.4	2.0	2.0	2.1
Singapore	2.7	3.9	3.2	2.3	2.4	2.5	0.6	0.4	0.8	1.2	1.6
Hong Kong	2.4	3.8	3.0	2.3	2.3	2.4	1.5	2.4	2.2	2.2	2.3
Taiwan	2.5	3.1	2.6	2.0	2.0	2.1	0.6	1.4	0.7	1.1	1.4
Malaysia	2.1	5.9	4.7	4.4	4.5	4.7	3.8	1.0	1.2	2.2	2.5
Indonesia	2.1	5.1	5.2	5.1	5.1	5.1	3.8	3.2	3.2	3.5	3.6
Thailand	1.9	4.0	4.1	3.5	3.5	3.4	0.7	1.1	0.9	1.2	1.4
Philippines	1.6	6.7	6.2	6.0	6.1	5.8	2.9	5.2	3.2	3.3	3.6
Vietnam	1.5	6.8	7.1	6.5	6.3	6.2	3.5	3.5	3.0	3.8	3.8
India	1.5	7.2	7.0	7.2	7.3	7.4	3.6	3.5	3.9	4.3	4.6
Canada	1.5	3.0	1.8	1.4	1.7	1.7	1.6	2.3	1.8	2.0	2.0
NZ Trading Partners	100.0	4.1	3.9	3.5	3.5	3.4	1.8	2.0	1.8	2.0	2.2
Forecasts for New Zealand											
Consensus		3.1	2.8	2.5	2.5	2.4	1.9	1.6	1.6	1.9	2.0
BNZ Forecasts		3.1	2.8	2.4	2.6	2.5	1.9	1.6	1.7	1.9	1.7
The World		3.2	3.1	2.8	2.7	2.7	2.5	2.9	2.6	2.6	2.9

Big spend, limited savings in Budget

The Budget shows how willing to govt is to lift spending to meet its objectives and eat into forecast surpluses to do so.

Its greatest risk may be that a global downturn, or local physical shock, whether climatic or seismic, could see a return to OBEGAL deficits as early as the next fiscal year.

At this stage, the govt has not come up with any significant cost savings to limit the upward push on spending. Savings in some areas have been redeployed elsewhere in both the opex and capital accounts. Nor were there any announcements of ways for the govt to raise revenue.

Downside risks to Treasury's growth forecasts and upside pressure on future expenditure present the very real possibility that the govt will soon return to deficits. As things stand the forecast surplus for the year ended June 2020 is just 0.4% of GDP (down from 1.3% forecast at the half-year fiscal update). The forecast for fiscal 2021 is also just 0.6% (down from 1.5% previously).

That said, expense growth is forecast to fall to less than 4% by 2021, which **has to be questionable**, particularly given the growing drumbeat of spending demands from sectors not touched significantly by the Budget.

Financial stability and capital adequacy

The NZ financial system remains resilient to a broad range of economic risks, but elevated risks remain, according to the RBNZ's latest financial stability report.

It highlighted that household and dairy sector debt levels are still high, leaving borrowers and lenders exposed to unanticipated events. Similar challenges exist globally, given current high public and private debt levels, and stretched asset prices in many of NZ's trading partners.

Separately, and indicating the ongoing pressure the central bank is feeling over its proposals to significantly increase bank capital requirements, three external experts have been appointed to review the analysis and advice underpinning its proposals. They are: James Cummings, a senior lecturer in finance at Macquarie University; Professor Ross Levine, chair of banking and finance at the Haas School of Business, University of California, Berkeley; and David Miles, Professor of Financial Economics at Imperial College London.

Trade

Annual **exports to China** jumped 22% in April to top $15b for the first time, with growing demand for beef, lamb, logs and dairy products. Exports to China now account for about a quarter of NZ's exports. Exports to Australia, NZ's second-largest trading partner, rose 0.7% to $9b in the year. Total exports were $59b. NZ's trade balance was a surplus of $433m in April, versus a revised $824m surplus in March. The annual trade deficit was $5.48b, in line with expectations.

Activity indicators

The BNZ-BusinessNZ **performance of services index** fell 0.5 of a point from March to a seasonally adjusted 51.8. That was 3.9 points lower than a year earlier and the lowest reading since Sept 2012. The index remains below the long-term average of 54.4.

NZ's **retail sales volumes** rose a seasonally adjusted 0.7% in the March quarter from 1.7% in the Dec quarter. Economists had predicted a lift of 0.6%.

A net 32% of respondents to the **ANZ business outlook survey** expect general business conditions will deteriorate over the coming year, versus 37.5% in April. A net 8.5% of firms anticipate an improvement in their own activity, compared to 7.1% a month earlier. However, commercial construction intentions fell 12 points with only a net 4.2% of firms expecting to lift their investment in the coming year. Residential construction intentions fell 7 points, with a net 27% expecting reduced activity, a 10-year low.

Northport upgrade doesn't stack up commercially: Aecom

Building a new rail link to Marsden Point and upgrading the existing Northland line could bring forward Northport's development as a major freight handler and help boost the broader regional economy, consulting engineers Aecom have advised. However, **the $700m capital expense and ongoing operating costs do not stack up commercially.**

Aecom suggests that would mean wider strategic benefits would need to be up-weighted to justify the project.

Minerals still matter: Parker

The global shift to a lower carbon economy will require greater development of mineral resources and NZ is well-placed to show how it could be done, Economic Development Minister David Parker told the Minerals Forum in Dunedin. Rapidly developing energy technologies will require greater minerals extraction, albeit not fossil fuels. Parker was speaking after about 100 protestors blocked entry to the conference for the 300-plus delegates.

Transport, aviation and tourism

High aviation fuel prices may knock up to $60m off **Air NZ's** forecast pre-tax profits with it now targeting 2019 earnings to exceed $340m before tax vs a target range between $340m and $400m given just two months ago. It is pursuing $60m of additional annual savings over the next two years, on top of a standard annual target of $50m savings. The carrier also contracted to buy eight new **Boeing** Dreamliner 787-10 long haul jets, with options on 12 more, and wants the first in service by late 2022. Air NZ said it had a significant discount on the US$2.7b list price. The new planes are 25% more fuel-efficient than the Boeing 777-200s the new Dreamliners will replace. It wants the new planes to **fly Auckland – New York,** among other routes. **Chicago-Akl has proved successful** to date. It chose **GE** to provide engines rather than **Rolls Royce**. RR engine problems on existing 787-9 planes have created long haul route challenges for Air NZ. The national carrier is **slightly reducing domestic route frequency** owing to lower inbound tourist numbers. It is also contemplating a move to **hyper-personalised fare offerings** and developing a **new intermediate class between Economy and Premium Economy**, yet to be named, with slightly better legroom and seats than standard Economy.

Tourism Holdings will cut its US fleet by about 17% as it tries to address unacceptable performance in North America. The company will cut US$40m of capital spending and shed 400 vehicles from its US fleet, giving it about 2,000 RVs in the 2020 financial year. It reaffirmed guidance for profit to be $25m-$28m in the year ending June 30.

Freightways says softer express package business growth in the second half of 2109 poses some risks for the 2020 financial year. It said it has re-secured the group's largest customer for another three-year term but at discounted rates.

Mainfreight reported a 28% lift in full year net profit as it global network continues to strengthen across its three core services of domestic transportation, warehousing and international freight-forwarding. Net profit was $137.6m in the year to March 31 versus $107.7m in the prior year. Revenue lifted 12.9% to $2.95b and its earnings before interest, tax, depreciation and amortisation rose 19.5% to $257.1m.

Primary sector

Fonterra turned in a disappointing half-year result, albeit in line with expectations set by new CEO Miles Hurrell. Nonetheless, there were signs that the cooperative is preparing the ground for a strategy of retrenchment to the home market, with the sale of its Chinese farms now clearly on the cards and, along with its JV partner **Nestle**, an intention to quit its Brazilian operation. In Australia, it is closing the obsolete Dennington plant.

The range for its forecast payout this season was reduced and earnings guidance was cut. It now expects to pay $6.30-6.40 per kilogram of milk solids in the current season – which ends on May 31 – versus its Feb forecast of $6.30-6.60/kgMS. This reflects slightly weaker than expected prices for whole milk powder and skim milk powder, offset by a lower kiwi dollar. Fonterra's opening forecast for the season beginning June 1 is $6.25-7.25/kgMS.

Synlait Milk raised its forecast base milk price for the 2018/2019 season to $6.40 per kilogram of milk solids from $6.25/kgMS. It said the increase is due to recovering dairy commodity prices since the last update in Jan. Synlait said the $7.00 kg/MS opening forecast for 2019/2020 season will rely on robust pricing throughout the year.

Beef and sheep meat exporter **ANZCO** said the Japanese frozen beef trade is recovering after tariff reductions for NZ under the CPTPP allowed local producers to compete against Australian beef farmers. Since Australia's trade agreement with Japan in 2015, ANZCO's frozen beef tonnages to Japan halved to around 4,000 tonnes a year, but those volumes are recovering, and it aims to get back to past annual sales levels of 7-8,000mt.

There are concerns efforts to reduce **M. Bovis** may be hampered by more than 7,000 dairy farms not yet re-registering to the upgraded **National Animal Identification and Tracing** scheme.

Zespri's net profit rose to $179.8m in the 12 months ended March 31, from $101.8m a year earlier. Revenue climbed 26% to a record $3.14b, of which net global kiwifruit sales were up 23% at $2.94b. Zespri sold 167.2m trays, up from 138.6m a year earlier and paid out $1.82b to growers in the year, up 24%.

Energy and resources

Contact Energy will spend $30m on appraisal wells in Taupo's Tauhara geothermal steam field as it builds towards a final investment decision for a new power station in 2020.

Todd Corporation is to acquire a 75% stake in solar provider Sunergise NZ to expand the range of its Nova Energy business.

Banking, insurance and finance

The **Commerce Commission** is investigating **BNZ**'s compliance with disclosure requirements. BNZ says it has been reviewing its compliance with the law since 2015 and last year paid $3.8m to more than 10,000 customers to refund wrongly charged interest and fees.

Cooperative Bank posted an 8.7% decline in annual profit after $5m in fee cuts. Net profit fell to $9.6m in the 12 months ended March 31, from $10.5m a year earlier. The bank paid customer/owners an unchanged annual rebate of $2.1m. It added 14,700 customers in the year and now has 160,000.

ANZ Bank's NZ chief executive **David Hisco** is taking extended sick leave and **Antonia Watson**, who heads retail and business banking, will take over as acting chief executive. Hisco's doctor says his prognosis is good so long as he slows down and takes time off to recover.

RBNZ governor Adrian Orr made it very clear at the media conference on the Financial Stability Report that he had **no patience for banks that used internal models that had not been approved by the RBNZ.**

Healthcare and retirement

Fisher & Paykel Healthcare's net profit lifted 10% to $209.2m in the 12 months to March 31 while revenue was up 9% at $1.07b, the first time the company has cracked one billion dollars of turnover.

Green Cross Health's net profit lifted 3.2% as its medical division posted a strong result. However, its community health division faced funding challenges and its pharmacy division's gross margin declined. Net profit attributable to shareholders was $16.1m in the 12 months ended March 31, versus a restated $15.6m in the prior year.

Non-invasive bladder cancer test-maker **Pacific Edge** reported a loss of $17.9m in the year to March 31, versus a loss of $19.7m in the prior year.

Blis Technologies reported a maiden profit of $381,000 in the 12 months ended March 31, almost 18 years after listing.

Arvida Group reported a 17% increase in underlying profit after tax of $38.6m for the year to March 31, citing new retirement villages acquired in previous years and higher resales of vacated units at higher margins as the main contributors to the result.

Ryman Healthcare reported a 12% increase in underlying earnings to $227m from $203.5m. The growth was due to a widening of its gross development margin on new sales to 30%, especially at the company's second village in Melbourne.

Capital markets

Hawke's Bay Regional Council will proceed with a sale of 45% of **Port of Napier** and expects the initial public offering to take place in early July.

Advent Gold deferred plans for an initial share offer on the **ASX** following the govt's rejection of a land sale for a new tailings operation at OceanaGold's Waihi mine. The firm, which has an exploration permit near Reefton and has applied for another at Carrick in Central Otago, had been aiming to list by August. Chief executive **Adam McKay** said this had been deferred by at least a year while the political uncertainty created by the Waihi decision was resolved.

Media and Entertainment

MediaWorks reported a net loss for the year ended Dec 2018 of $5.5m. Revenue was up slightly from $300m to $302m but radio, normally its strong suit, underperformed.

A $1m pilot scheme aimed at boosting the reporting of local democracy issues has been launched by the **Newspaper Publishers Assn**, **RNZ** and **NZ On Air**. The pilot will recruit eight journalists to provide local news to an array of media.

Commercial property

Precinct Properties said the Commercial Bay development being built by **Fletcher Building** at the bottom of Auckland's Queen Street will now cost $690m-$700m, versus its Feb forecast of $690m. It now expects the retail centre to be completed in March 2020 and the **PwC** office tower in April 2020.

Manufacturing

Cavalier Corp expects to break-even in the second half, meaning annual normalised profit will remain around $1.9m. It said challenging market conditions continued, particularly in Australia, and there was slowing demand in NZ. Also decreased Chinese demand for coarser carpet wool hit wool prices, cutting sales and margins for Cavalier's wool buying business, Elco Direct.

Corporate actions

Turners Automotive Group may sell its **Oxford Finance** and **EC Credit** debt collection units as it streamlines the business.

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