# HUGO*vision*

*Assessing the economic and political environment in New Zealand*

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## Budget still in rescue mode

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Billed as a 'recovery' Budget, this was still more a rescue package than a strategic document outlining a plan. While it sets aside $50 b for covid-19 responses, the vast majority of initiatives announced were either extensions of the wage subsidy, make-work schemes in regional NZ to soak up tourism sector unemployment, and infrastructure announcements that might have appeared in any Budget.

## More spending and debt to come

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So far, the govt has committed a total of $62b of new spending - around 20% of GDP - to the covid response. However, that is not significantly more than the eventual cost of the Canterbury earthquakes. Grant Robertson was relaxed to suggest that future Budgets are likely to need to allocate more.

## Fiscal sustainability remains intact

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The projected addition to govt debt levels is eye-watering, but still only takes NZ to net core Crown debt of 53% of GDP, still well below the pre-covid levels of most OECD peers, and a return to surplus late in the decade is contemplated. The govt is being coy about what a 'prudent' Crown debt target should be in the future, but it's higher than the now ditched 15-25% of GDP range.

## Rather bullish economic expectations

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Both the Treasury and the RBNZ have produced surprisingly bullish economic forecasts, although both are careful to caveat them for current uncertainty. The Treasury sees unemployment topping out below 10% and back to full employment by 2024. That looks heroic.

## Legislative drag-race

A large amount of emergency legislation is being rushed through Parliament, routinely with minimal select committee scrutiny. Crisis circumstances make this somewhat inevitable, but the potential for unintended consequences and repenting at leisure is very significant.

## Trans-Tasman bubble by July?

Australian PM Scott Morrison has spoken more frankly and openly than any NZ govt minister about the potential for a trans-Tasman travel 'bubble' to be operating as soon as July, and even in time for the Australian July school holidays, which fall later in the month (from July 13) than currently announced NZ school terms (from July 6).

## Election on Sept 19 looks increasingly secure

Asked this week whether a general election could be held under Alert Level 2 restrictions, Jacinda Ardern answered simply: "Yes." Given that the country is likely to be in level 1 by that stage - barring a rebound in covid-19 cases - the election appears increasingly certain to be held on Saturday, Sept 19, as previously announced.


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## Budget rhetoric and reality mismatched

The Budget was billed as setting the scene for economic recovery, but in reality, it was largely still a rescue package.

Throughout the initiatives announced is an emphasis on either mass creation of low-skilled jobs or retraining for lower-skilled workers, especially those in the regions left without work by the contraction of the tourism sector.

There is infrastructure spending, but less than expected and no detail as yet on new projects.

Expectations of a tourism 'rescue' package were, in the end, oversold.

The Budget is characterised more by a pragmatic managerialism, mixed with an optimistic view about how quickly the NZ and global economies can recover from covid-19 responses, how fast job markets will rebound, and how much it will cost the govt to protect NZers from the worst impacts of what the Treasury describes as the largest shock in peacetime to the world economy since the 1930s.

## A $50b down payment

The $50b set aside for the Covid-19 Response and Recovery Fund comprises:

- $13.9b already committed for extra wage subsidy and other measures announced since the March 25 lockdown;
- $15.9b of new spending announced in the Budget, which extends the wage subsidy, offers explicit support to exporters, SMEs and start-ups of a fairly standard kind, a relatively small allocation of $3b to 'shovel-ready' infrastructure projects, 8,000 new state houses, free trades training and apprenticeships, additional education and health sector funding, and $1.1b of low skills, job-rich nature conservation projects;
- $20.2b of unallocated funding for further initiatives, including sports, events and arts sector support packages, almost certainly further wage subsidy support and probably more infrastructure. This may yet become a buffer if the virus flares up again around the globe;

Another $12b of announcements on March 17, including the first tranche of the wage subsidy, benefit increases, tax changes and the 'winter energy payment' are outside the $50b CRRF, taking total spending to $62b in covid responses so far.

Almost all of this spending is operational or capital commitments in areas that are neither surprising nor innovative. The govt would argue some could have a transformational impact - e.g., greater use of rail, freshwater quality improvements, effective national pest control.

But mostly it is spending intended to keep cash flowing through an economy that has stalled and faces a long, hard road back to anything like the resilience it had demonstrated for the decade since the GFC until earlier this year.

Arguably, this apparently unambitious approach is justifiable and even welcome.

The govt has had no time to credibly embark on a transformational policy agenda based on the 'opportunity' created by covid-19.

It is better to concentrate on job preservation, especially as there is a discernible tension building between business interests seeking stability and certainty in very uncertain times and activists in various areas seeking to use the crisis as a catalyst for societal and economic changes.

However, the scale of commitment to a range of low quality, temporary spending initiatives is a concern.

## Conservation initiatives create temporary work only

A good example: the $433m injection into regional environmental projects to create perhaps 4,000 jobs over five years is intentionally short term.

"This package allows businesses considering redundancies and downscaling to redeploy their staff on environmentally focused activities in their home region," Environment Minister David Parker's statement says. "When those businesses are able to rehire again, workers can return to their previous roles."

This suggests a questionably simplistic view of workforce and commercial dynamics.

The use of the unallocated $20b bears close watching. While Simon Bridges is perhaps overly cynical to think it can be deployed as a "slush fund" to buoy activity prior to the election, there is credible tension between legitimate stimulus the potential for the Budget announcements to cushion economic damage for short term political gain prior to the election.

## Is a win in 2020 also a win in 2023?

The exact path for an economic bounceback is unknowable at present. Much rests on whether and how large any global resurgence of covid-19 proves to be. That, in turn, will be a huge test of social and political appetite for going back to lockdowns when the economic consequences will have become so stark.

However, it is reasonable to expect a bounceback over the next three years and that the election in late 2023 will be held in part of that upswing.

A govt elected in 2020, as the country heads into a deep recession, could reasonably expect to reap electoral benefit simply from still being in office as the global economy recovers.

## Key Budget assumptions

- The worst of the GDP contraction is occurring now, with 4.6% negative growth forecast in the year to June 2020, and -1% next year. It bounces to 8.6% in the year to June 2022, having reached the top of the bounce in the March year, when 13.2% growth is forecast;

- Unemployment peaks almost immediately, just under 10% and in the current quarter. It remains elevated but sub-8% in 2021, unless recovery is slower than expected. It falls to pre-covid levels by 2024. This seems optimistic and appears not to account for potential labour market dynamic changes caused by businesses adapting to more digital tech and less certainty;
- House prices fall by about 6% and are a key factor in household consumption falling by about 15% in the next year to 18 months. By late 2021, private consumption is presumed to be back to pre-covid levels;
- Govt spending rises sharply to near 40% of GDP, from just under 30% now. It drops back to 30.2% on the Treasury's 'main forecast' by July 2024. A fiscal impulse of between 6% and 7% of GDP occurs in the current fiscal year - twice the level seen in response to the GFC. New spending allowances in the next two Budgets are smaller than in the past at $2.4b and $2.6b respectively and significant fiscal tightening, rising to around 3% of GDP, occurs between 2022 in 2024;
- NZ's borders open again by April next year, although both tourism and inward migration levels build slowly. Net migration of 4,000 in the year ahead builds to 35,000 by 2024, which is what Treasury was forecasting six months ago;
- The exchange rate weakens between 4% and 10% through the early period of the covid crisis and recovers by 2024 to 70.0 on a TWI basis, from a forecast low of 66.0 in June this year;
- The 90 day bill rate is assumed to be 0.5% through the next four years, although this is clearly a placeholder reflecting unknowable monetary policy decisions yet to come;
- Inflation is basically irrelevant. There is no deflation forecast, but inflation struggles to get to 2% in the forecast period on all scenarios;
- Budget surpluses are foreseen as early as the 2034/25 fiscal year, but 2027/28 is more likely;
- Forecast total tax revenue in the Budget forecasts does not surpass total forecast revenues contained in the Dec 2019 half-year update until the 2023 fiscal year;
- the $165b borrowing programme over the next four years reduces Crown net worth from 47.2% of GDP in June 2019 to just 10.3% in June 2024. Assuming the $62b covid spending already announced is insufficient, it is not unreasonable to suppose that Crown net worth could turn negative for a period.

## Fiscal strategy

Grant Robertson is not nominating a new target 'prudent' level for net core Crown debt, but appears to be signalling that around 30% of GDP is a more likely resting place than the previous target of between 15% and 25% of GDP. A return to fiscal surplus remains a goal.

Expect more discussion of what a 'sustainable' fiscal position is thought to be in the post-covid world.

Note also that, paradoxically, the covid-19 impacts on the govt's accounts have spared it the political battle that would otherwise have occurred over the fact that it was likely to be running fiscal deficits on an OBEGAL basis for the next three years anyway.

The Budget contains a variety of comparisons with the fiscal and economic outlook as foreseen in the Budget the govt had been planning to present. These confirm that Labour would have had to defend small OBEGAL deficits during the period of relative economic weakness that the Jan $12b infrastructure package sought to offset. That package was devised before covid-19 had emerged as the crisis it was to become. The covid response means the govt does not have to defend running deficits at all, only the quality of its response to the crisis.

There is very little discussion of future tax policy, beyond noting that tax burdens need to be seen to be "fair". The desire for multi-national companies and borderless digital services companies to pay fair levels of tax in NZ is cited also. The govt appears determined, however, to avoid a tax argument pre-election.

## Are the Budget economic forecasts realistic?

The economic assumptions the fiscal forecasts are being based appear too optimistic, even though Standard & Poor's suggested that the recovery in NZ will be faster than Treasury assumes.

While the Treasury's 20%-plus drop in activity in Q2 2020 seem believable, the assumption of a return to normality seems too swift.

Treasury has activity back at pre-covid levels in 2022, with the unemployment rate back at 4.2% at the same time.

It is more likely to take until late 2023 for activity to return to recent-past levels and that employment growth will lag. Many businesses will take the opportunity to semi-permanently reduce staff costs as they endeavour to recoup margins.

The wage subsidy scheme has given businesses breathing space to adjust, but many have yet to make hard decisions and will need to do so within weeks.

## Infrastructure's role

Infrastructure and construction activity, including an aggressive state house building initiative that stretches credibility, plays its part in the recovery.

But the construction sector cannot be expected to carry the New Zealand economy on its shoulders. Even with extra state houses, new home construction can be expected to roughly halve, as population growth slows and the unemployment rate rises.

Non-residential construction will be similarly constrained, especially as demand for space from corporates and retailers may change if work-from-home trends offset the need for more physical distancing, and more e-commerce reduces showroom floor demand.

General infrastructure can certainly provide a fillip to the economy but the much-hyped 'shovel-ready' projects initiative won just $3b of funding for $136b of applicant projects - many of which were admittedly barely on paper let alone shovel-ready.

That smaller than expected commitment is somewhat offset by the $12b NZ Upgrade Programme, announced in Jan.

Infrastructure Minister Shane Jones talked of seeking "extraordinary powers" beyond the fast-track RMA amendments that will be introduced imminently accelerate projects *(see item p6)*.

## Bond markets gyrate

Having rallied on the RBNZ's near doubling of its QE bond-buying programme to $60b on Wednesday, fixed interest markets corrected on the Budget announcements. The bond curve steepened, with the 2037 maturity up 16 basis points in yield and the ten year benchmark up 9.

Announcement of the massive debt programme that lies ahead could be the catalyst for a more extended correction. Some $48.9b of net new issuance is slated for the year ended June 2021, with another $40b the following year. Some market indigestion, even with the RBNZ buying up large, is inevitable.

## Budget announcements

- The tourism sector gets a $400m down payment on likely wider govt support, with a range of initiatives that include a promotional campaign to NZ domestic travellers. However, the sector - along with hospitality and events - was not singled out for particular support;
- Instead, the govt is extending the wage subsidy scheme in a more targeted fashion for another 12 weeks, with firms receiving an initial 8 week lump sum payment. The extension will run from June 10. Firms that have "suffered or expect to suffer revenue loss of at least 50% for the 30 day period prior to the application date vs the nearest comparable period last year will be eligible". This is a higher bar than the 30% revenue loss that applied for the first phase of the wage subsidy scheme. High-growth and new firms can also participate and pre-revenue firms recognised by Callaghan Innovation can apply;
- In part to soak up jobs lost in tourism and hospitality, the govt will fund $1.6b in trades and apprenticeship training to make it free for NZers of any age to retrain. Some $19.3m is made available to help place 10,000 people in primary sector jobs.
- a $200m extension of the school lunch programme also appears aimed at a combined impact of soaking up unemployed, low-skilled hospitality workers and women while relieving low income household budgets and, potentially, having positive public health impacts through improving childrens' diet;
- DHBs will receive an extra $3.9b over the next four years, taking their annual collective budget to $15.3b. This compares to the $14.0b forecast for the June 2020 year in last year's Budget. The money includes $280m to fund operations and procedures put on hold due to covid-19. There was no discussion in the announcement of possible amalgamation of DHBs;
- The Infrastructure Reference Group received $136b of allegedly 'shovel-ready' projects to fund, but has been allocated only $3b. Infrastructure Minister Shane Jones nominated three key criteria for those that would be chosen, of which the most surprising is perhaps that they be "visible to the public" to spur confidence in economic recovery. The other two criteria are immediate job and wealth creation, and that construction should begin within 12 months;
- KiwiRail receives an additional $1.2b in funding for new track work and signalling infrastructure, ferry and port infrastructure replacement, and new wagons and locomotives;
- some 8,000 new state houses will be built by the govt housing delivery agency Kainga Ora. This will more than double the current govt's state house building programme to nearly 17,000 and is forecast to take 4-5 years to complete. Kainga Ora recently had its debt cap lifted and it will borrow around $5b to complete the work;
- environmental restoration, conservation and pest control programmes worth $1.1b over four years are intended to create some 11,000 jobs;
- NZ First's importance to coalition unity was demonstrated by Racing Minister Winston Peters's success in securing a $72.5m support package for the racing industry, including $20m to construct two new all weather race tracks;
- Pharmac will get an extra $10m in 2020/21 and $150m additional funding over the following three years;
- the Commerce Commission, Financial Markets Authority and Serious Fraud Office all receive material funding boosts that the govt says are intended to improve their efficacy in a post-covid world. In reality, it appears the govt has used a moment of unusual fiscal largesse to loosen the purse-strings for a number of core agencies that had been complaining of under-funding;
- NZTE will double the number of exporters receiving intensive assistance under its successful Focus programme from 700 to 1400 at a cost over four years of $32m;
- NZTE is also voted $40m over four years to employ more 'boots on the ground' trade advisers in key export markets;
- there will be $16m of new investment in the NZ Story initiative to reinforce NZ's brand to compensate for the loss of international tourism.

## Bridges' survival strategy

**Simon Bridges is in a state of high anxiety about the state of his leadership**, lashing out unguardedly at journalists and perceived political enemies in the lead-up to the Budget.

If evidence that he may lack steady judgement under pressure were needed, recent examples are ample.

There is also a **head of steam to move against him if he stumbles in his response to the Budget.** After muffing his responses to the initial lockdown and the move to level 3, the National caucus is extremely nervous. They are also learning that the leaked UMR poll putting National at 29% support paints a better picture than **Curia polling, which recently had the party at 27% support**.

At that level, many of the next generation of National front-benchers would lose their seats.

However, **the last few weeks cannot be regarded as a guide to the election outcome**. NZers have been overwhelmingly compliant, supportive of the govt's strategy on covid-19, and the virus containment strategy has - apparently - worked.

However, **the economic cost of that strategy is now fast becoming the focus.** The Budget is the govt's best and perhaps last big chance to put its best foot forward with a recovery strategy.

But the job losses and business closures have barely begun, with just on four months to run before election day.

Unless Bridges or National do an appalling job of Opposition, they **can reasonably expect to recover to levels of support similar to the rest of the current parliamentary term** - high 30s/low 40s - as NZers count the cost of aggressive lockdown.

Bridges did a workmanlike job of his parliamentary speech in response to the Budget and received noticeable, if ritual, applause from various known sceptics and a couple of possible leadership contenders.

His basic theme: Labour has no plan, will instinctively try to control rather than allow economic forces to play out, and will tax more, given half a chance. Along with the claim that National is the better economic manager, these will be key themes of National's election campaign.

## Foreign investment regime

The govt has introduced legislation for a short term foreign investment test that will run on a 90 day review cycle. All foreign investment proposals, irrespective of size, will be caught if they involve taking an ownership stake of 25%, or increasing a stake above 50%, 75%, or to 100%.

The intention is to prevent 'fire sales' of 'cornerstone' NZ assets to foreign investors. The measures will be in place by mid-June, with a brief select committee process. A second, more considered process will enact other previously announced Overseas Investment Act reforms, including new controls on sensitive land sales.

Responsible minister David Parker cited, as an example of the national interest harm the govt wished to prevent, the sale of a "substantial tourism business" that may have lost all value as a result of the covid-19 border closures.

The value of such a business **"would not reflect the importance of the business, so interim controls are needed to protect our national interest,"** Parker said.

As an **indication of the current administration's temptation to seek an unusual degree of control over private property rights**, this example is worrying.

## Environmental law tangle

The govt may also be vulnerable on the environmental legislation and regulation front.

There are three major areas of reform outstanding, the path for which are unclear prior to the election. Some may even be destined to be parked until after the election.

These are:

- freshwater reforms;
- RMA amendments;
- ETS amendments.

The RMA reforms are contentious because they include an ability for regional councils, for the first time, to consider climate change when hearing resource consent applications. This could be a development-stalling political minefield.

Likewise, any ETS reforms that could threaten to raise business costs at a time when the govt is highly focused on saving jobs.

Freshwater reform is the one area where there is alignment across the coalition. It is also a bellwether issue for Labour. Parker and Ardern are heavily invested in producing a political outcome in this parliamentary term and stakeholders are generally accepting of the need for action.

## RMA fast-track law due

The govt will soon introduce fa ast-track RMA resource consent legislation bill with a view to having it in place by late June.

However, it doesn't currently have a parliamentary majority as the Greens are opposed beyond 1st reading and National is playing hard to get.

National's RMA spokesperson is Judith Collins, who will be seeking to extract a political price for supporting legislation that National ultimately agrees with but has not been consulted on.

National is particularly irked by the inclusion of climate change provisions in the separate, wider RMA reform Bill mentioned in the item above.

The party is also uninterested in supporting fast-tracking for infrastructure projects it disagrees with.

## Robertson lukewarm on RBNZ direct govt bond purchases

Finance Minister Grant Robertson is not ruling out ever having the Reserve Bank create money by buying bonds straight from the govt but says doing so now is unnecessary and would send the wrong signals to the financial markets as bond markets continue to operate well.

## Local govt gets debt headroom

The Local Govt Funding Agency will loosen the limits on how much debt larger councils can take on relative to their income, giving them more headroom to help fund a national infrastructure programme.

The extra headroom is needed to overcome a shortfall in forecast funding estimated at between $355m and $1.5b in the June 2021 year, with councils unable to raise rates as much as expected and as fee and investment income declines.

## Peters's Beijing-baiting - trade implications?

**Dairy exporters** are watching for any sign of retaliation at the Chinese border in response to provocative comments by **Foreign Minister Winston Peters**, relating to Taiwan. There is no evidence of reaction at this stage, but tensions between Canberra and Beijing are affecting Australian beef exports.

Peters appeared to back the US call for an international inquiry into the origin of covid-19, which Australia is also backing. It was necessary for the world to understand what caused the outbreak and when it started in China, he said.

Peters also said NZ's position is Taiwan should be allowed in the World Health Organisation. This follows the Chinese Embassy in Wellington saying Taiwan is ineligible to join as it is part of China.

Peters suggested that the Chinese ambassador to NZ, Wu Xi, "listen to her master", and claiming that his Chinese counterpart, Wang Yi, had privately assured him that China would never retaliate against NZ as it has done in the past and, apparently, at present with Australia.

That prompted scolding official comment from Beijing, demanding that NZ respect the 'one China' policy that regards Taiwan - which has a rare free bi-lateral trade agreement in its own right with NZ with China's blessing - as part of China that will one day be reunified. Peters then doubled down on his comments at a press conference on his racing industry package.

NZ International Business Forum's Stephen Jacobi believes dairy companies are privately becoming increasingly concerned about the spat, although are keeping their heads down.

"He (Peters) has brought the Chinese Foreign Minister into it," says Jacobi**. "Has the risk increased as a result? Should it be increased at this time? Of course it shouldn't.** At the moment, China is saving our bacon economically."

## Defence cooperation

Australia and NZ have agreed to further strengthen defence cooperation in the fight against covid-19 in the Pacific. Ministers agreed building Australia and NZ's defence industries was a priority and discussed how companies like Hawker Pacific and Airbus Australia Pacific play a crucial role.

The Epidemic Response Committee issued summonses to the Solicitor-General, the Director-General of Health and Police Commissioner seeking the legal advice they have on the lockdown and the powers used to enforce it. Attorney-General then sought to refer the request to Parliament's Privileges Committee.

## Jones gets logging win

Forestry Minister Shane Jones failed to get an export log levy off the ground but has succeeded in pushing through a log exporter registration system that he intends to use to force greater certainty of domestic supply for NZ wood processors.

Legislation introduced on Budget night says forestry advisers, log traders and exporters will have to register and "work to nationally agreed practice standards that will strengthen the integrity of NZ forestry supply chain".

It is unclear at this stage whether Jones has gained as much authority over domestic supply as he had hoped for. The bill also allows for an arbitration and compliance system "to support accountability" and "support a continuous, predictable and long-term supply of timber for domestic processing and export and result in greater confidence in business transactions, both in NZ and internationally".

## The chimera of negative interest rates

The idea that the RBNZ will soon be moving to negative interest rates appears to have gained a certain allure among financial market participants.

However, the signals in Wednesday's monetary policy statement suggest that governor Adrian Orr remains in no hurry to go there.

The combination of his raising the bank's 'large scale asset purchase' (LSAP) quantitative easing programme from a $33b to a $60 target shows QE is currently regarded as the best tool to effect monetary policy stimulus.

In fact, the MPS was notable for treating the potential for a lower or sub-zero OCR almost as an afterthought.

Of course, it may come on the agenda at some stage, but there is no pressing need for it to do so soon, or even this year.

The RBNZ MPS and Treasury Budget economic and fiscal forecasts are very similar.

Both take what looks to be a relatively bullish view of the forward fiscal position and the outlook for growth and unemployment, with a return within four years to something like the conditions that prevailed pre-covid.

However, both also acknowledge that the risks are decisively weighted to the downside in almost all scenarios. Unemployment, in particular, is more likely to test the 10% mark than either Treasury or the central bank is forecasting.

If that's the case, then consumer demand and economic growth will almost certainly be weaker too.

Neither is taking a serious look at this stage at what a second wave of covid-19 infections would do to their forward projections. Either way, a return to economic activity at 2019 levels appears more likely in 2023 than 2022.

### Lockdown costs

The RBNZ estimated there was $10b of lost production under lockdown restrictions, with GDP sinking around 37% during four weeks of alert level 4 lockdown, reducing annual GDP by 3.2%. It estimated four weeks under level 3 would mean a $5b loss in production, reducing annual GDP by 1.7%. The estimates are slightly rosier than Treasury's projections, which indicated GDP would be down around 40% under alert level 4.

### Economic indicators

**Provisional trade statistics** show exports holding up in the covid-19 environment. For the week ended 29 April compared with the equivalent week in 2019 total exports to all countries were up 3.3% ($38m), from $1.14b to $1.18b. Total imports from all countries were down 28% ($331m), from $1.17b to $834m. Exports to China were up 20% ($56m), from $277m to $333m. Imports from China were up 4.5% ($10m), from $222m to $232m.

The **unemployment rate** rose to 4.2% in the March quarter versus 4% in the Dec quarter, Stats NZ said. The number of people who were employed rose by 19,000 to reach 2.66m in the quarter, while the seasonally adjusted under-utilisation rate rose to 10.4% from an 11-year low of 10% in Q4 2019.

**Z Energy** said fuel volumes in the week ended May 3, following the move to alert level 3, were still down about 55% from pre-lockdown levels.

### Tourism's savage adjustment

A **Tourism Industry Aotearoa** survey of its members found 78% are taking major steps to adapt their businesses to the changed operating environment. One-third of businesses (33%) indicated they are going into hibernation, 40% are sharply reducing business size and capacity, and 21% are scrambling for capital in order to survive.

### Credit rating maintained pre-Budget

**Standard & Poor's** reaffirmed NZ's AA+ local currency credit rating and maintained its positive outlook. This follows Moody's reaffirming its Aaa rating. S&P's report says govt spending is cushioning the blow of covid-19 on the economy.

### Residential construction

37,606 new homes were consented in the March 2020 year, down slightly from 37,882 in the Feb 2020 year, Stats NZ said. The March 2020 year figure is nearly 9% higher than for the year to March 2019. On a monthly basis, the number of new homes consented fell 8.7% in March 2020 compared with March 2019.

The Budget expects this to drop sharply as net migration falls along with house values and household consumption.

### Residential property

**Barfoot & Thompson** booked 552 sales in April, almost half the 1,096 completed in March, while the average price of $962,136 in the city was 3% less than the month before. Many of the April sales had been agreed in March. April's 239 listings were down 87% from March and almost 80% lower than the 1,192 listings during April 2019.

# CORPORATE ROUND-UP

## Primary Sector

**Beef cattle numbers** rose 5% to about 3.9m in 2019, as beef prices and exports increased, Stats NZ said. Dairy cattle numbers dipped, but overall, numbers for total cattle remained steady at 10.2m in the year to June 2019. Sheep numbers were down 2% to 26.8m, continuing a long trend down. Deer numbers fell 5% in 2019, down to about 810,000 animals.

**NZ pork producers** say a 12-month delay implementing new country of origin labelling laws will harm them and farmers at a time when they need local support. Due to the disruption caused by covid-19, MBIE announced a 12-month delay with commencement now in Dec 2021.

**Kiwifruit growers** wanting compensation from the govt for the PSA disease are seeking an appeal to the Supreme Court.

**Exports of red meat** and related products reached $1.1b in March, a year-on-year increase of 12%, the Meat Industry Association said. The monthly export value of red meat topped $1b for the first time despite a 9% drop in the value of meat exports to China, reflecting the covid-19 slowdown in that country. The MIA said overall dollar returns had been buoyed by increased value of red meat exports to other major markets, led by a 13% increase in the dollar value of sheep meat – on the back of a 4% increase in volumes.

A **$500,000 fund** has been set up by the govt to pay for farmer and grower advisory services as they prepare their businesses to recover from drought. So far this year the govt has spent $17m to assist drought-stricken regions.

## Energy and resources

**Z Energy** stopped production at its Wiri biodiesel plant while it considers options to make the operation viable, including using it as an import terminal or possibly making product for export.

Auckland councillors voted to impose **mandatory water restrictions** due to the ongoing drought. The year to date has been the driest in Auckland's history, with water storage lake levels falling below 50% for the first time in 25 years.

The **risk of multiple defaults among electricity retailers** has prompted the sector regulator to require the six largest network companies to provide financial support to some of their customers. The **Electricity Authority** plans an urgent rule change requiring the network companies to offer eligible retailers a two-month holiday on distribution and transmission charges for up to nine months.

## Banking, finance and insurance

As of May 8, 174 loans worth a total of $23m had been lent by banks under the govt's $6.25b business finance guarantee scheme. **Bankers Association ceo Roger Beaumont** said member banks had lent $7.2b to businesses outside of the BFGS since the lockdown began on March 25. He said there will be more take up of the govt scheme with new wider criteria, but smaller businesses with immediate needs will look to the new Inland Revenue loans scheme.

**AMP** abandoned plans to sell its NZ wealth management business following the disruption caused by covid-19.

Investment and advisory firm **Jarden** is establishing an Australian business as part of its expansion strategy. The firm announced hiring of four executives – three from UBS and one from Goldman Sachs – to start the Australian venture. Robbie Vanderzeil, formerly investment banking chair at UBS, will run the Australian business.

**Tower** hired **Blair Turnbull** as its new chief executive. He was most recently at London-based Aviva Group, a savings and insurance business, where he ran the UK, UK digital, and international operations. Before that he was ASB Bank's general manager of wealth and insurance.

**Westpac NZ's** first-half net profit fell to $256m from $455m in the same six months a year earlier as charges against profit for bad debts rose to $211m from $14m, non-interest income dropped 29% and operating costs rose 13%. Non-interest income fell to $175m from $248m, while operating costs rose to $541m from $480m, reflecting rising regulatory and compliance costs.

## Telecommunications, media and entertainment

In order to get **5G** up and running as soon as possible, the govt gave up on a planned auction of radio spectrum and will instead offer allocations of 60 megahertz to **Spark NZ** and **2Degrees** and 40 MHz to wholesaler **Dense Air**. **Vodafone NZ** already had enough 3.5GHz spectrum to launch its commercial 5G network last year.

**2degrees** reported a pre-tax profit of $28.6m for the 12 months to Dec 31 compared with $19.6m the year earlier, despite a 9.7% drop in revenue from $806m in the 2018 financial year to $727.8m last year, caused by exiting low-margin handset sales arrangements.

**NZME** baffled the govt by seeking urgent legislation over-ruling the court-backed Commerce Commission decision declining a merger with Stuff.

**Nine Entertainment,** which owns Stuff, immediately said recent talks with NZME were off, leading NZME to claim it still had exclusive negotiating rights. There are indications Nine may be preparing to quit Stuff, with or without a buyer. Other potential bidders exist, although their state of readiness and credibility is uncertain. On Thursday, NZME sought an injunction to force Nine to honour its exclusive negotiation period. Meanwhile, two **NZ Shareholders Assn** activists have put motions to NZME's annual meeting seeking break-up, a resumption of dividends, and a more spirited implementation of its digital strategy. Stuff is clearing the decks, nonetheless, announcing the sale of its broadband operation to Vocus, and quit its JV in domestic electricity sales.

A sale of the **Bauer NZ** magazines as a job lot to the printing firm that produced them, **Webstar**, is tipped, with backing from **Craig Heatley**. Bidding has been extended from May 5 to May 29.

US broadband operator and owner of **Sky UK**, **Comcast**, is understood to have been running the rule over Sky Network TV.

## Commercial property

A **NZ Council of Retail Property** survey of retail centre landlords found 75% of tenants had been offered rent relief. More than 50% of tenants had not paid rent in April and do not intend to do so in May.

## Manufacturing and construction

**James Hardie Industries** plans to shut down its fibre cement manufacturing operations in NZ as the covid-19 pandemic hits its bottom line, putting 120 jobs at risk. The change would mean the closure of its Penrose manufacturing plant this year.

Transport Minister **Phil Twyford** said the **Transmission Gully** project faced delays due to covid-19, although he made no comment on reports the current completion date of Christmas 2020 could be delayed two years and that 10km of the 27km route will require fundamental remedial work.

## Transport and logistics

**Air NZ** will operate to the majority of its domestic airports when NZ enters alert level 2. The airline plans to operate around 20% of its usual domestic capacity during level 2. It will not be offering its cheapest lead-in fares as one metre social distancing means it can only sell just under 50% of seats on a turboprop aircraft and 65% on an A320.

## Technology and IT

**Microsoft** is to establish its first data centre region in NZ. A local datacentre avoids sovereignty issues over sensitive data being hosted in global centres, meaning Microsoft will gain an advantage over its rivals in attracting customers who are more attuned to jurisdictional issues.

**Pushpay Holdings'** earnings rose to US$25.1m in the 12 months ended March 31 from US$1.6m a year earlier. Revenue was up 33% at US$127.5m and gross margin widened to 65% from 60%.

## Service industries and healthcare

Luxury accommodation provider **Robertson Lodges** plans to stagger re-opening its three lodges and is hopeful a "trans-Tasman bubble" will be in place by the third quarter. International visitors made up 80% of its guests at Matakauri in Queenstown, Cape Kidnappers in Hawke's Bay and Kauri Cliffs in Northland and were critical to their success. About a quarter of the lodge business comes from Australia.

**Cannasouth** raised $6m from its share purchase plan to accelerate growth plans. The company sold 15.8m shares at 38 cents, a 20.7% discount to the five-day volume weighted average price.

**Ngāi Tahu Tourism** is cutting its workforce from 348 to 39. Its operations include the Shotover Jet, Rainbow Springs in Rotorua, the Agrodome in Rotorua, Hukafalls Jet and Queenstown Snowmobiles. All but one of its tourism businesses - Glacier Southern Lakes Helicopters - will be closed for the foreseeable future.

## Corporate actions

**Property for Industry** said its balance sheet and cash flow are strong enough for it to pay a first quarter dividend of 1.8 cents per share on May 26 to those on the register on May 15.

The top 25 companies on the **NZX** continue to dominate alternative funding, with the next tier of 25 listed companies relying on banks as their primary source of debt, according to **Chapman Tripp**'s latest funding composition survey. Of the top 25 companies by pre-covid market capitalisation, 17 have listed retail bonds, 12 have US private placements and 12 raised debt through issuing bonds, euro or Australian medium-term notes and commercial paper.

## Capital markets

**NZX** equity trading was up more than 360% at 1.3m in April, with an increase in low-value trades cutting the average on-market trade size in half to $2,463. **Craigs Investment Partners** said while volumes from retail brokers had been high, the big moves were coming from institutional investors and the advent of pocket-trading platforms like **Sharesies.**

## Untidy times at Parliament

Parliament resumed on April 28 for the first time since the covid-19 lockdown, with reduced MPs in the Chamber, limited business and reduced hours.

A shortened debate on the committee stage of the **Appropriation (2018/19 Confirmation and Validation) Bill** (the annual review debate) ensured completion ahead of the Budget.

Most legislation was related to the covid-19 response and passed very quickly with little dissent and occasional missteps. For example, MPs passed through all stages with just one debate the **COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill**, mistakenly also including provisions for the Small Business Cashflow (Loan) Scheme.

This was to have been in a separate, later bill. The **Parliamentary Counsel Office took the blame** and apologised.

The snafu typified how **Parliament is moving at great speed, without significant select committee scrutiny, to enact a number of weighty covid-related measures**. Some involve fundamental changes to human rights protections, which is **causing increasing friction.**

The impact of covid-19 has severely disrupted the govt's wider legislative programme. **Even if the House returns to business as normal after the Budget,** the time to pass legislation will be constrained with it still planning to dissolve Parliament in August ahead of a September election.

**Legislation without a high political, policy or administrative priority is not likely to make the cut.**

- *Italics denote update from previous edition of Hugovision*
- *A full compendium of the legislation before the House is available on The Hugo Group website, www.thehugogroup.com*

### Bills Introduced and Passed

**COVID-19 Response (Further Management Measures) Legislation Bill** - *Omnibus bill introduced May 5. Includes "business debt hibernation" regime and a safe harbour for insolvency-related directors' duties. Changes termination rules for commercial property leases, and treatment of cartel behaviour. Amends numerous regulatory requirements which will not be able to be met in the current environment. Passed under Urgency on May 13 with the support of all parties except for ACT.*

**COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill** - *Introduced April 30 and passed through all stages with just one debate. An omnibus bill implementing covid-19 related measures. Brings forward or defers commencement dates of new legislation, extends timeframes for meeting regulatory deadlines. Enacts a temporary a tax loss carry-back measure and gives IRD temporary administrative discretion. Creates the Small Business Cashflow (Loan) Scheme to be administered by IRD. Supported by all parties.*

**Immigration (COVID-19 Response) Amendment Bill** - *Introduced May 5. Changes the Immigration Act for one year to allow greater discretion with regard to visas. Completed all stages with all parties in support.*

**COVID-19 Public Health Response Bill** - *Introduced May 12 under Urgency. Establishes standalone legislation providing a legal framework for responding to covid-19, necessary to enforce restrictions under alert level 2. National and ACT opposed, govt amendments included requirement to refresh every 90 days and restricting enforcement officer designation. National and ACT opposed third reading on May 13.*

### Bills in progress

**Child Support Amendment Bill** - Introduced March 11. *First reading May 6, supported by all parties and sent to the Social Services and Community Committee.*

**Climate Change Response (Emissions Trading Reform) Amendment Bill** - Introduced Oct 24. *Delayed, reported back May 4 with numerous technical amendments, including ministerial discretion over phasing out of the free allocation of NZUs.*

**Te Ture Whenua Maori (Succession, Dispute Resolution, and Related Matters) Amendment Bill** - Introduced Sept 19 *Reported back May 1 with substantial amendments.*

### Reportbacks extended

**Education and Training Bill** - Introduced Dec 2. *Report back extended to June 8;* **Films, Videos, and Publications Classification (Commercial Video on-Demand) Amendment Bill** - Introduced Dec 10. *Report back extended to June 8;* **Land Transport (NZTA) Legislation Amendment Bill** - Introduced Dec 2. *Report back extended to June 8;* **Land Transport (Rail) Legislation Bill** - Introduced Dec 2. *Reported back May 1, mainly technical amendments. National MPs still opposed;* **Sexual Violence Legislation Bill** - Introduced Nov 11. *Report back extended to June 15;* **Local Government (Rating of Whenua Māori) Amendment Bill** - Introduced Feb 27. *Report back extended to August 3;* **Racing Industry Bill** - Introduced Dec 5. *Report back extended to June 1;* **Residential Tenancies Amendment Bill** - Introduced Feb 17. *Report back extended to July 13;* **Screen Industry Workers Bill** - Introduced on Feb 18. *Report back extended to August 6.*


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