

On track for lockdown relief on Aug 26

The govt has played it predictably safe by keeping Auckland at L3 and the rest of the country at L2 over the weekend. There had been some thought that more southerly parts of the country might have been relaxed, but the stage is set for an announcement Monday of a staged return to relative normality of Levels 2 and 1 from next Wednesday evening.

Changes to L1 look likely

The govt is highly sensitised to the impact of further lockdowns and PM Jacinda Ardern today made clear that in cases such as the Rydges hotel worker with covid-19, alternatives to widespread lockdowns would be possible. To further guard against the need for lockdowns, serious consideration is being given to reducing the size of gatherings at L1 in future. This is likely to have a significant impact on the live music and other performances sector.

A rough week for Labour

The PM was in charge when she delayed the election by a month to Oct 17 on Monday, but the govt began losing the covid-19 narrative mid-week, allowing Judith Collins to get a burst of the political momentum she's been working hard to achieve. National's internal polling is improving, although it is still far from being in a likely position to govern.

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What the Cabinet really thinks of Ashley Bloomfield

There are even deeper tensions now between ministers and the Health Ministry and its director-general than existed before the border and quarantine facility testing failures exposed this week. The Heather Simpson/Brian Roche oversight committee is the visible response. There are others, including greater willingness to hear external advice and to seek unfiltered reporting from DHBs.

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Could the election date change?

It could, but only at the behest of the Electoral Commission after Parliament is dissolved on Sept 6. The PM has said she "does not intend" to change it again before then. The disruption and uncertainty created by further moving election dates will be avoided at all costs, if possible.

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Rio Tinto still looking for a deal

The majority owner of the Tiwai Point aluminium smelter continues to hope the govt is working up a deal that would give it lower electricity transmission charges over several years to allow an orderly rather than jarring shutdown. Ministers appear to want this, but there is no contact occurring between Rio and either ministers or officials.

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Wage subsidy sleeper?

An unknown number of businesses may have unwittingly breached the Minimum Wage Act by taking the wage subsidy and then paying their low waged staff 80% of normal earnings. The problem is emerging in ERA rulings and is exacerbated by the fact the minimum wage rose on April 1, shortly after the first lockdown began.

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The difference a month could make

The govt began the week with an apparently deft manoeuvre that pushes the election out by four weeks to Oct 17.

The delay removed any possibility the PM was trying to deny opponents a 'fair' election campaign period.

However, by week's end, National, ACT and NZ First were making enough of a meal of the testing failures at the border and quarantine facilities for the govt to officially have a 'bad week'.

Judith Collins and David Seymour have started to gain momentum and focus in their attacks on the lurking shambles at the Ministry of Health.

And in the testing issue, Winston Peters has found the wedge he previously lacked to stake out a position that could yet make him relevant if he can just scrape 5% national support on polling day.

As we demonstrated in scenarios published in the last edition of HUGOvision, there are limited but imaginable circumstances where a National/ACT/NZ First coalition could cobble together a bare majority at this election.

It would require National to be close to 40% support, ACT to stay up around 6% and NZ First and National to swallow their pride and work together.

It is an unlikely scenario, but Collins and Peters are seasoned at Opposition politics and Seymour, invigorated by current polling, has also fought his way to relevance. That is allowing him to showcase political skills that have become sharply honed but rarely noticed to date.

National's internal polling is understood still to have had the party below 35% support earlier this week, but there is positive momentum and legitimate hopes of a stronger showing next week.

It should not be assumed that because Collins has a combative relationship with the media that this is playing poorly in key constituencies for National.

Nor should the **potential for the PM's 'kindness' brand to suffer if it also becomes linked with incompetence**. This has always been this govt's Achilles heel. It would have been more apparent if there had been no covid-19. Labour's strength in recent polling as an economic manager in crisis may not be well enough entrenched to withstand further significant covid failures.

The govt will work hard to patch up the holes in testing, quarantine and border practices. As long as the country returns to Level 1 by later in the month, there is plenty of time to shore up its prospects.

However, **the game changed this week**. Ardern and key ministers have been shown to be vulnerable on covid management at a time when **public faith in lockdowns and trust in the system that seemed to have delivered safety is fragile**.

Deep tensions between kitchen Cabinet and MoH

Ashley Bloomfield may say he "welcomes" the oversight of Heather Simpson and Brian Roche on the Ministry of Health's border and quarantine testing, but the decision embodies the deep tension between the Cabinet and its health advisers.

Public trust in Bloomfield protects him, but the same impulse that saw former Health Minister David Clark throw Bloomfield under a bus shortly before his own defenestration is at play again now.

The ministry's inability to execute policy is at the heart of the problem. In fairness, it has never been a policy delivery agency. But its failure to keep ministers properly informed of implementation by DHBs and its unwillingness to seek or hear advice from external experts is driving ministers to seek those alternative advice sources themselves.

They are also understood to be seeking unfiltered reporting directly from the three DHBs in regions where border and quarantine facilities are being run.

Raging consensus on two key pandemic elements

For all the politicking about border and quarantine testing failures, there is **still broad political consensus among the major parties that elimination remains NZ's most viable strategy for managing covid-19**.

National is no longer talking faster border opening, as it was under Simon Bridges and briefly under Todd Muller. Rather, it is talking stronger testing regimes, including negative test requirements before boarding a flight to NZ, and **more surgical, quicker lockdowns**.

Those are tacit endorsements of continued elimination. NZ First is in the same place.

There is also consensus about the need to beef up pandemic preparedness. Both National and NZ First support variants of a newly constituted border force.

This appears to be more about creating a more coordinated approach to epidemic threat management by amalgamating existing resource than necessarily creating new institutions.

The govt is also in effect supporting tougher border controls with the actions taken this week to beef

up NZDF contributions to quarantine facility management from 700 to 1200 personnel and invest \$6m in new CCTV and other surveillance gear at MIQs.

ACT's David Seymour is hoping to Hoover up a few percentage points more support by taking the contrarian position on elimination.

But he is in synch with the impulse that supports either a border force or a Centres for Disease Control-style approach.

CovidCard gaining favour

National's new tracking policy was notable for endorsing further investigation of the **Sam Morgan-led CovidCard Bluetooth** 'always-on' wearable device that avoids the need for smartphones or app use.

The **govt is also either warming to the CovidCard or has decided it needs to show willing** for an initiative its health ministry officials have not been keen on.

As well as the current community trial occurring in Rotorua, Quarantine Minister Megan Woods announced a CovidCard pilot for staff at one isolation facility, with a view to wider rollout in coming months.

This willingness to trial CovidCard is also an expression of the **Cabinet's growing willingness to question and override MoH advice**.

The new election timetable

The key dates for the election process, now that polling day is moved from Sept 19 to Oct 17 are:

- **6 Sept:** Parliament to dissolve
- **13 Sept:** writ day - the Governor General issues the writ for the election to be held
- **17 Sept noon:** the deadline for parties to submit bulk candidate nominations and party lists to the Electoral Commission
- **18 Sept noon:** the deadline for individual electorate candidate nominations to returning officers
- **30 Sept:** overseas voting begins
- **3 Oct:** advance voting begins
- **17 Oct:** election day - preliminary results released progressively from 7pm
- **30 Oct:** preliminary referendum results released
- **6 Nov:** official results declared for the general election and referendums.

Parliament sat on Tuesday and Wednesday this week for Question Time and ministerial statements and will sit again next week for two days. A decision

on a possible third week of sittings is not yet made. For the next two or three weeks Parliament will not deal with any other business unless urgent legislation is needed. Opposition calls to reconstitute the pandemic response select committee fell on deaf ears. The argument is that the committee's existence was justified during the first lockdown by the fact that Parliament could not sit. It is able to do so at present, allowing ministers to be scrutinised in sitting hours.

Can the election date still change?

Yes. The PM has said she "does not intend" to change the date from Oct 17 and following the dissolution of Parliament, it will be out of her hands.

However, at that point, the Electoral Commission can still change the election date if there are reasons, including epidemic, that make voting unsafe or impossible.

It can move the date three days on its own and by seven day increments following consultation with the PM and Leader of the Opposition.

A city-wide lockdown would probably be enough to occasion delay. The commission has already prepared for as many as 5,000 people to be able to vote under Level 3 conditions and is doing what it can to ramp that up further.

However, **there will be huge reluctance to keep changing the date.** As demonstrated this week, the commission told the PM it needed a month to rearrange election booth, scrutineer and other logistics. It may also need to reprint or at least include addenda in the electoral rolls used on voting day, to accommodate all the voters who turn 18 between Sept 19 and Oct 17.

Rio Tinto open to tx deal

There is no visible movement on a deal that might lead to the orderly, slower exit of the Tiwai Point aluminium smelter, but Rio Tinto is hoping a politically brokered deal will be offered.

The govt has appeared happy for Rio Tinto to go and the smelter has made it clear it will go in the end.

Behind the scenes, however, Rio is more than willing to receive an offer from the govt of a **fixed price, multi-year discount on its transmission charges** to allow a slow rampdown over perhaps three to five years. At the moment, the smelter is due to close next August.

PREFU postponed

Among the many 'do-overs' required by delaying the election is a recasting of the forecasts for the Pre-Election Fiscal and Economic Update.

The PREFU will now be published between Sept 7 and 21 and will be updated for the expected impacts of the current lockdown.

While downside risk is obvious, the damage already done to international tourism and education cannot be repeated and will mitigate potential additional impact.

POLITICS AND POLICY

An orderly exit would suit the smelter workforce and associated services, the Southland economy and its regional political leadership. **It would delight the electricity generator-retailers**, who are both commercially and politically exposed to the departure of NZ's largest industrial electricity user by a country mile.

It is a two-edged sword for the govt. On one hand, if it gives Rio a transmission discount, it will be accused of pandering again to the Aussie giant, whose reputation could hardly be worse after recent events, including the apparently deliberate destruction of protected, ancient Aboriginal sites in the Pilbara.

However, without a deal, it will preside over major job losses, and will see its 100% govt owned grid owner, Transpower, spend hundreds of millions of dollars of transmission grid upgrades to get the additional electricity out of the lower South Island to northern consumers.

Yet that investment will coincide with the further shrinkage of industrial load from traditional large consumers such as NZ Steel and the Marsden Pt refinery. Transmission costs for other consumers will either need to rise, or the value of transmission assets may need to be written down. The gift of time for a staged transition might well suit all parties but, for now, the smelter is hearing nothing from the govt and is disinclined to push either publicly or privately for the deal it wants.

Wage subsidy Pandora's box starts to open?

A string of Employment Relations Authority decisions and scheduled hearings suggest a sleeper issue of unknown proportions relating to the application of the wage subsidy scheme in low wage industries.

Two decisions - known as Dove and Gate - have found against employers who paid workers at 80%

of normal salary - as advised they could under the wage subsidy scheme - and dropped wages below the minimum wage as a result.

While the wage subsidy scheme never carried an exemption from the requirements of the Minimum Wage Act, nor did the instructions for applicants to the scheme make that clear. An unknown number of SMEs running their own payroll and not receiving either professional advice or heads-ups from business associations are likely to have made this error.

While ministers are aware of the issue, its extent is not yet clear and, at least for now, the attitude from the Finance Minister's office is that it is a police matter if employers have failed to pay their staff in accordance with the law. The issue is one of many bedevilling both bureaucrats and business owners grappling with the unintended complexities thrown up by fast decisions as the country went into the first lockdown.

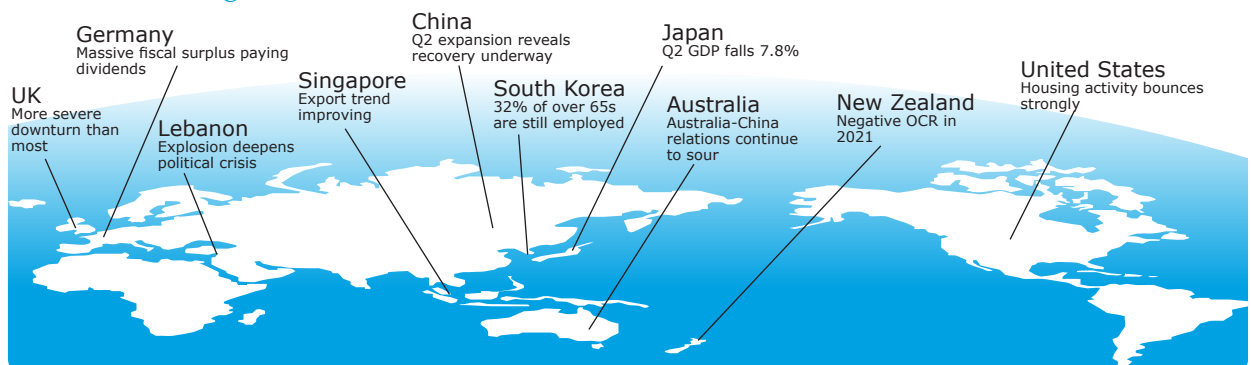
Wage subsidy extension

The wage subsidy has been extended for the new lockdown, although is less generous. Firms need to have a revenue drop of at least 40% due to covid for any 14-day period from a year earlier to be eligible. Treasury estimated 470,000 jobs will be covered by the further extension at a cost of \$510m, with 460,000 workers eligible under the existing extension at a cost of \$1.1b. It will be funded from the underspend in existing wage subsidies. The govt also relaxed covid leave support scheme rules to let businesses access an equivalent to the wage subsidy if staff have to self-isolate, and the mortgage deferral scheme is also being pushed out to March 31, 2021 from its current expiry on Sept 27.

National Party list

The National Party list rankings suggest the following MPs will be returned to Parliament on current polling while not winning the electorates they stand in: Paul Goldsmith (3); Chris Bishop

The world at a glance



(7); Michael Woodhouse (12); first-term MP Nicola Willis (13); Melissa Lee (16); West-Coast Tasman MP Maureen Pugh (19); shadow attorney-general Harete Hipango (21); and ethnic communities spokesperson Kanwaljit Singh Bakshi (24).

Chartered accountant Nancy Lu, who has worked in NZ, Hong Kong and China in various roles with PwC, EY, Fonterra as well as private companies in shipping and retail, is the highest new ranked list-only MP at 26th. She effectively represents a replacement as an MP of Chinese ethnicity for Jian Yang, who is retiring at this election.

The 'pretty legal' first lockdown

The High Court ruled the first nine days of covid-19 Level 4 restrictions were unlawful as proper orders were not in place. The powers existed but were not enforced until April 3 when the error was corrected. The court found the actions were a necessary, reasonable and proportionate response to a public health emergency. No decision on an appeal had been made.

Local govt in focus for Cabinet

Expect the govt to seek advice and policy action on the self-imposed debt ceilings that local govts are imposing on themselves, generally citing the risk of credit rating downgrades.

In the current low interest rate environment, the govt is increasingly unconvinced that current debt ceilings are either necessary or justified, particularly

given the scale of capex on new infrastructure that is required in areas such 'three waters' renewal and the importance of infrastructure investment in covid recovery plans.

Meanwhile, Auckland Council could save \$67m over the next decade by merging Regional Facilities Auckland and Auckland Tourism, Events and Economic Development, according to a review of the city's five council-controlled organisations.

International trade

The Chinese ambassador to NZ, Wu Xi, suggested the upgrade of the free trade agreement between the two countries remains on track, despite recent tensions caused by events in Hong Kong. Wu said NZ had used the new law as an excuse to end the extradition treaty, but she hoped the two countries could meet halfway and do more to promote bilateral relations. The language was notably more conciliatory than that aimed at Australia.

Meanwhile, Taiwan has been pressing its case for accession to the TPPA.

Bank finance guarantee scheme extended

The govt announced more changes to its business finance guarantee scheme which it says will allow banks to lend more. To date the scheme has only lent \$150m to 780 customers out of the \$6.25b originally allocated. It is hoped by widening and loosening the criteria there will be more uptake of the scheme. 🏦

Trading partner growth

(2018-2019 actual; 2020-2022 Hugo and Consensus Forecasts)

Trading partners	Weights %	GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
		2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
China	31.9	6.8	6.1	2.1	7.8	5.5	2.1	2.9	2.7	2.0	2.4
Australia	17.8	2.7	1.8	-4.0	2.8	3.3	1.9	1.6	0.7	1.5	2.1
United States	11.3	2.9	2.2	-5.2	4.0	2.6	2.4	1.8	0.9	1.7	2.2
Japan	7.1	0.3	0.7	-5.3	2.5	1.1	1.0	0.5	-0.1	0.2	0.7
Eurozone	5.8	1.9	1.3	-7.9	5.7	2.0	1.8	1.2	0.4	1.1	1.4
South Korea	3.4	2.7	2.0	-1.1	3.3	2.9	1.5	0.4	0.4	1.0	1.9
United Kingdom	3.1	1.3	1.5	-9.9	6.4	2.0	2.4	1.8	0.7	1.4	2.0
Singapore	2.3	3.5	0.7	-6.3	5.7	3.1	0.4	0.6	-0.4	0.9	1.9
Hong Kong	2.6	2.9	-1.2	-6.3	4.3	2.5	2.4	2.9	1.3	1.6	2.2
Taiwan	2.4	2.7	2.7	0.0	3.2	2.6	1.4	0.6	-0.2	1.0	1.3
Malaysia	2.1	4.7	4.3	-3.9	5.4	4.5	1.0	0.7	-1.2	1.7	2.5
Indonesia	2.0	5.2	5.0	-1.5	5.1	5.2	3.2	2.8	2.3	2.8	3.7
Thailand	2.1	4.1	2.4	-6.9	4.7	3.6	1.1	0.7	-1.2	0.9	1.3
Philippines	1.7	6.3	6.0	-5.9	7.7	6.0	5.2	2.5	2.3	2.7	3.0
Vietnam	1.5	7.1	7.0	2.5	7.7	6.4	3.5	2.8	3.3	3.2	3.8
India	1.4	6.8	4.2	-5.3	7.7	6.9	3.4	4.8	4.6	4.3	4.7
Canada	1.5	2.0	1.7	-6.4	5.3	2.7	2.3	1.9	0.7	1.7	2.1
NZ Trading Partners	100.0	4.1	3.3	-2.6	5.3	3.8	2.0	2.0	1.3	1.6	2.1
Forecasts for New Zealand											
Consensus		3.2	2.3	-5.9	4.8	3.8	1.6	1.6	1.5	1.2	1.5
BNZ Forecasts		3.2	2.3	-7.8	3.0	4.2	1.6	1.6	1.5	0.7	1.3
The World		3.2	2.5	-4.7	5.0	3.6	2.9	2.7	1.9	2.3	3.0

Negative interest rates ahead

The RBNZ kept the OCR at 0.25% but expanded its large-scale asset purchase programme from \$60b to \$100b and reiterated negative interest rates and foreign assets purchases are still on the table depending on the inflation and employment outlook.

BNZ economists are picking this won't occur before March next year and that it will come in a 50 basis points move to -0.25%.

Such a rate cut will be accompanied by a funding for lending programme, to optimise the impact on lending rates of the negative cash rate. It would appear likely that to make this work the RBNZ will operate a tiering system whereby some portion of banks' cash balances are remunerated at a higher rate (less negative) than the OCR. **Effectively this would mean the RBNZ would be rewarding banks who lend more.**

These two mechanisms are likely to dominate for a time as the primary source of additional monetary stimulus. Note that it is currently likely the LSAP will be tapering at the time interest rates go negative.

The bigger question is whether negative rates will have any significant stimulatory effect. The issue for viable businesses at present is not access to finance, but a loss of willingness to make new investment. That is a real world covid impact, rather than a monetary conditions issue.

As the world becomes accustomed to the increasing use of monetary policy initiatives that have previously been called 'unconventional', the risk that these measures are stacking up imbalances for a future reckoning remains a significant source of long term risk.

Fiscal policy remains the more powerful and effective lever for economic stimulus in current conditions.

Activity indicators

The **BNZ-Business NZ Performance of Manufacturing Index** for July rose 2.6 points to 58.8 - the highest level since April 2018. BNZ said it showed a strong bounce back after a large decline in the second quarter. The expansion was led by a 14-year high surge in new orders. However, inventories were softer, and the employment sub-index fell slightly and remained in contraction, pointing to firms still shedding jobs.

The **BNZ/BusinessNZ Performance of Services Index** was 54.3 in July and while it was unchanged from June and expansionary, the positive picture may

not last. Even if current new lockdown restrictions don't last much longer they will knock the PSI for Aug. Of the five main indices the only one below 50 in July was employment at 49.7, however, for it to be so close to stability, when economic activity has taken such a hit, is relatively encouraging.

The **BNZ-SEEK employment** report said jobs ads rose 9.8% in July, listings were down by about 32% on the same month a year earlier.

Retail spending

Retail spending using electronic cards reached \$6b in July 2020, up \$610m (11%) from July 2019. Card spending rose for all but one of the six retail industries, with consumers spending more on groceries, clothing, hospitality, and cars than in July 2019. Fuel was the only retail industry experiencing a fall in July, down \$44m (7.9%) from July 2019.

Residential real estate

There was a 24.6% increase in the monthly volume of house sales with 7,854 properties sold last month, the biggest July volume in five years. The Real Estate Institute said Gisborne was the only region not to post an increase in sales with Nelson having a 42% increase. The national median house price rose to \$660,000 in July, up 14.8% from a year earlier.

Construction

Ready-mix concrete production fell a seasonally adjusted 23% to 770,000 cubic metres in the last quarter as construction ground to a halt during the shutdowns during April. Stats NZ said the biggest year-on-year declines came in regions with higher construction activity, including Canterbury, down 29%, and Auckland, down about 26%.

Migration

The total number of border crossings in the June 2020 quarter was 78,400, down from 3.14m for June 2019. There were 57,200 departures and almost 90% of these were non-NZ citizens. There were 21,100 arrivals, with 14,300s NZers. 7,100 of those were returning from a short-term trip overseas, and 7,200 after living overseas for more than 12 months.

Population

NZ's estimated resident population was provisionally 5,025,000 at June 30. During the June 2020 year the population grew by 105,500, or 2.1%. The estimated natural increase (births minus deaths) was 26,100 and estimated net migration (migrant arrivals minus migrant departures) was 79,400. ■

Primary sector

A2 Milk is making a \$270m bid for 75.1% of Mataura Milk, which would leave current majority shareholder, China Animal Husbandry, with a 24.9% stake. **A2** reported a 33% jump in full-year revenue and expects more growth this year on expanded capacity. Total revenue was \$1.73b in the year to June 30 with net profit \$385.8m, up 34%. Its shares fell on the news as investors had expected even more. **HanesBrands** executive **David Bortolussi** is replacing a2's interim chief executive **Geoffrey Babidge**, early next year based in Sydney.

Global **dairy auction prices** fell to their lowest level in two months with average prices dropping 1.7% to \$US3,004 a tonne following a 5.1% fall at the last auction. The price of whole milk powder dropped 2.2% to \$US2,936 a tonne.

PGG Wrightson reported earnings were \$23.4m in the year to June 30, down \$1m. Net profit was \$7.8m, compared to a profit of \$131.8m in 2019, when it booked the gain on the sale of its seeds business. There will be no final dividend after a net loss of \$4.9m in the second half of the year.

Kiwifruit grower **Seeka** reported a 9% increase in first-half operating earnings despite an estimated \$5.3m impact from covid-19. The firm reported \$30.4m earnings before interest, tax, depreciation and amortisation for the six months to June 30, up from \$27.9m a year earlier. Gains on property sales boosted earnings by \$2.5m.

Sanford confirmed 66 staff will lose their jobs when its processing plant in Tauranga closes due to lower processing volumes and because the plant does not meet seismic strength requirements.

Transport, tourism and logistics

Jetstar suspended NZ domestic services until Aug 26 at the earliest due to the new lockdown restrictions. Jetstar had been operating 104 flights a week on six routes in NZ in Aug. **Air NZ** is operating a reduced domestic schedule to and from Auckland to allow for essential travel. **Air Chathams** also suspended most of its flights until Aug 27.

Auckland International Airport reported a 63% drop in net profit and said international travel won't recover for more than three years. Net profit was \$193.9m in the 12 months ended June 30 while underlying profit after tax was down 31.4% at \$188.5m. Revenue dropped 23.7% to \$567m.

Air NZ put a further hold on bookings to Australia after its govt extended caps on international arrivals until Oct 24. There is a limit of 25 passenger arrivals per flight into Brisbane and around 40 into Sydney.

International passenger arrivals into Melbourne are not permitted.

More than 450 workers at airline catering service **LSG Sky Chefs** were made redundant. The company operates at Auckland, Wellington, Christchurch and Queenstown airports, servicing airlines including Air NZ. It said given the border closures, keeping the staff on was not viable. It received more than \$9.6m in wage subsidies.

Freightways' contract under the govt's International Air Freight Capacity scheme was extended until at least the end of Aug. Freightways purchased over 200 extra air freight containers to cope with it moving over 250,000kg of produce per week between Auckland, Christchurch, Sydney and Melbourne.

Energy and resources

Meridian Energy is strongly contesting the **Electricity Authority's** preliminary findings on the alleged Undesirable Trading Situation last Dec. Meridian says the EA overstated the potential impact on power prices from its spilling during Dec's South Island flooding and risks creating new rules for the generation market without proper process. Where the regulator claims Meridian gamed the wholesale market, the company says it acted properly during an extreme flood.

Genesis Energy reported \$356m of earnings before interest, tax, depreciation, amortisation and changes in financial instruments for the year ended June 30, down 4% from a year earlier, as near-record dry conditions in the North Island reduced its hydro production and increased the company's thermal fuel costs. Lower oil prices and a 30-day production shutdown also reduced earnings from the firm's stake in the Kupe gas field. There was a 22% decline in net profit to \$46m for the June year.

Refining NZ reported a \$186.3m half-year loss and will keep operating in a low-volume mode while it continues its strategic review and considers moving from refining oil to only importing finished products.

Contact Energy reported a 64% decline in full-year net profit to \$125m amid lower wholesale prices and reduced production from the Clutha hydro scheme. The \$345m result a year earlier was boosted by a \$170m asset sale. Excluding one-time items, earnings were down 11% from \$505m a year earlier and underlying net profit was \$129m against \$166m last year.

Contact said rising gas and carbon costs are accelerating the case for replacing its ageing 377 MW Taranaki Combined Cycle plant at Stratford with renewable generation. But the company said a clearer picture of demand is needed before it can commit to a

CORPORATE ROUND-UP

150 MW development of the Tauhara geothermal field.

OMV warned of reduced supplies from the Pohokura gas field starting on Aug 18 and ending Sept 9 as it works to understand the recent slide in output and prepares new compression equipment. Output is expected to fall at most by 99 terajoules a day, but generally by less than 50 TJ.

Mercury NZ increased its dividend for a 12th straight year despite low inflows for its Waikato hydro system and the impact of the covid-19 lockdown. It reported a net profit of \$207m for the year ended June 30, down from \$357m the year before when it booked a \$177m gain on the sale of its Metrix metering business.

Nicki Crauford will replace **Brent Layton** as chair of the EA.

Banking, finance and insurance

Bancorp says its clients are finding it more difficult to get bank credit and when they do get it, they're having to pay between 0.35% and 1% more for loans. It said given the banks' views of the economic outlook, it expects them to continue to exercise caution.

ASB's annual net profit fell 25% as the lender almost tripled charges for bad debts to \$306m to reflect its current view of the coronavirus crisis's impact. ASB's net profit of \$958m for the year ended June 30 compared with the previous year's \$1.27b.

AMP Wealth Management NZ reported a 16% fall in first-half operating earnings to \$19m and a 3% fall in assets under management to \$12.4b despite positive funds inflow of \$21m as investment returns deteriorated.

Westpac Banking Corp said it won't pay a first-half dividend despite assuring investors that its balance sheet is strong. It also announced a further impairment charge against profit of A\$826m. This is on top of the A\$2.24b in covid-19-related charges the bank announced with its first-half results in May. Westpac said its unaudited statutory net profit for the three months ended June was A\$1.12b and cash earnings were A\$1.32b.

Media and entertainment

SkyCity revised its earnings guidance as it expects a better insurance payout from the Auckland international convention centre fire. However, this will be offset by a proposed \$161m impairment charge to its A\$283m casino licence in Adelaide. It expects international business activity may take some years to recover. Reported net profit after tax is now forecast to be \$235m, down from a mid-point of \$345m.

Sky TV sold its subsidiary Outside Broadcasting, which is responsible for filming live sports, to global production conglomerate **NEP** releasing it from the need to spend around \$50m to modernise broadcast equipment over the next five years.

Nine Entertainment left working capital of up to A\$5.8m in **Stuff**, based on the sale price of A\$7.7m sale price of Stuff Fibre to **Vocus**, disclosed in the Vocus results. Nine said up to 75% of the proceeds would be left with Stuff as working capital for up to the three years.

Construction and infrastructure

Fletcher Building confirmed an annual net loss of \$196m due to more provisions for legacy construction losses and the impact of the coronavirus crisis compared with the previous year's \$164m net profit. It is forecasting the NZ market will shrink 25% this year and the Australian market will be down 20%.

CEO **Ross Taylor** was paid \$1,965,104 for the year, less than his \$2.05m base salary and down 39.6% from \$3,252,570 the previous year. He was awarded shares worth \$2.05m, dependent on the company's performance over a three-year period.

Summerset Group's build programme has been slowed by the covid-19 crisis but it is seeing more tradies putting in tenders, and cutting their prices by anywhere between 3% and 12%.

The govt will spend \$200m on **Auckland University's** Faculty of Education and Social Work construction project to get work started this year.

The High Court ruled that an agreement by the **Port Nicholson Block Settlement Trust** to sell land at Shelly Bay to developer **Ian Cassels** had failed to count the votes of "thousands" of iwi members. The trust was in financial disarray before current trustees took it over and sought the sale as part of a rescue plan.

The **Green Party** promised enough affordable rental homes to clear the social housing waiting list within five years. If elected the party would expand the current Progressive Home Ownership and Warmer Kiwi Homes programmes.

Auckland Council-owned Watercare chief executive **Raveen Jaduram** resigned. He will be working out two months' notice.

Manufacturing

Fisher & Paykel Healthcare shares jumped after it hiked guidance on accelerated demand for its hospital-care respiratory products. It now expects full year operating revenue for the 2021 financial year to

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be approximately \$1.61b and net profit after tax to be approximately \$365m to \$385m. In June, it said full year operating revenue for the 2021 financial year would be approximately \$1.48b and net profit after tax would be \$325m to \$340m.

BlueScope Steel is preparing to spend up to A\$50m to lay off a substantial number of staff as it scales back production at its Glenbrook mill near Waiuku and **Pacific Steel** in Otahuhu. The company reported a A\$206m first-half operating loss on the NZ and Pacific Islands operation, including a A\$197m write down in the value of the business. BlueScope said since 2015, NZ carbon prices have roughly quadrupled to \$35 a tonne, yet few of the firm's competitors face any carbon cost. It is now considering ending primary steel production. It also warned its NZ businesses will be at risk if the operations are again shut as part of the covid-19 response. The level 4 lockdown cost about \$25m and it says it can operate with social distancing and another total shutdown would put its operations at risk.

Technology and IT

Xero's subscriber growth slowed in the first four months of its current financial year as the coronavirus took hold. Net subscriber growth in the four months ended July 31 was 96,000, taking total subscribers to 2.38m. This compares with a 228,000 net increase in the six months ended March and 239,000 in the six months ended Sept 2019.

Retail

Hallenstein Glasson said sales were up 0.1% to \$287.76m in the year ended Aug 1 and expected annual profit of between \$27.2m and \$27.8m, down just 5% despite store closures across Australia and NZ through the lockdown. Second-half sales dropped just 6.2%, weathering the pandemic better than anticipated, with online sales up 80%.

Michael Hill's net profit sank 69% to A\$3.1m in the 12 months ended June 30, due in part to new accounting standards. Earnings before interest and tax fell 33.3% to A\$14m. While Michael Hill's online sales increased dramatically, they still only accounted for 5% of total sales up from 2.8% in 2019.

JB Hi-Fi wrote down \$25.6m in the value of its

NZ operation after falling sales and profit margins dented its earnings. The NZ business had a \$1.9m operating loss as sales for the year fell by nearly 6% to \$222.8m.

Waste

The govt is proposing to phase out more single-use and other plastics to reduce waste. This includes some hard-to-recycle PVC and polystyrene packaging and oxo-degradable plastic products, and seven single-use plastic items, including plastic straws, drink stirrers, produce bags, tableware and non-compostable fruit stickers.

Commercial property

Pandemic related devaluations of its Auckland CBD portfolio reduced **Precinct Properties'** net profit 81.6% to \$35.1m for the year ended June, from \$190.4m last year. Income was up by 11.8% to \$82.7m from \$74m in 2019. The biggest hit was to the new Auckland CBD Commercial Bay precinct, which was revalued at \$1b, or \$80.6m under book value.

Rising vacancies and lower rental levels among fringe CBD buildings shows the greater impact of covid-19 on smaller tenants than on the premium end of town. Real estate manager **Jones Lang LaSalle's** market update said more than 101,000 square metres of office space in downtown Auckland is vacant, a recent high of 8.1% of about 1.26m sqm of total office space.

Capital markets

New investors and new capital raisings during the lockdown helped lift **NZX's** first-half profit by 41%. Operating earnings for the half-year ended June were up 21.5% at \$17.6m and on track to outperform its full year guidance of \$30m to \$33.5m.

Augusta Capital will delist from the NZX after the market closes on Friday, Aug 21 once ASX-listed **Centuria Capital** completes its takeover of the NZ firm. Trading in Augusta shares was suspended after close of trading on Aug 19 ahead of the delisting.

Jarden and **Credit Suisse Australia** agreed to exit their formal strategic alliance in the coming months. In May Jarden announced its plan to start its own Australian business. ■