HUGO*vision*

Assessing the economic and political environment in New Zealand

February 23 2024 | Confidential to HUGO members

Christopher Luxon sets the scene
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The Prime Minister got generally good reviews for his scene-setitng State of the Nation speech, the first time he's had a round of good press for a speech since taking office. In the speech, Luxon warned the state of the nation was "fragile" and, with Finance Minister Nicola Willis, set the scene for a relatively tight Budget.

Water storage – an early win for farmers?
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Though it wasn't included in his speech, some of the most significant comments made by the Prime Minister this week related to water storage, suggesting a desire to pick up where the fifth National government left off.

A new infrastructure agency
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National and Act are shortly to announce the creation of the new Infrastrucutre Agency. This will complement the last government's baby, the Infrastructure Commission. The agency will likely be built on top of Crown Infrastructure Partners, established for the last National government's fibre rollout and repurposed for other infrastructure execution because of that success.

Australia chooses greater number of small ships for a pre-war world
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The Royal Australian Navy will kit itself out with a larger number of smaller ships in a move that may mesh with NZ's need to upgrade its ANZAC frigates and in the context of the new government's willingness to consider increased defence and security commitments.

How to spend $27 billion
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The new government is set to unveil the first Health Government Policy Statement, a blueprint for directing the largely independent health delivery agency, Health NZ. The statement will cover the next three years of health spending, currently budgeted at about $27b to $30b a year.

Lukewarm jets may yet be cooled
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All eyes will be on number 2 The Terrace next Wednesday, when the Reserve Bank publishes the first Monetary Policy Statement of the year, with ANZ predicting the first of two rate rises being an outlier among peers.

Mixed earnings season
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A spate of corporate earnings announcements for either the six or 12 months to Dec 31 2023, showed a mixed picture across the economy. Insurers reported strong profits, bank profits were down a little but interest margins remained high. Air NZ is expecting a tough second-half, but retailers who had a dreadful last half of calendar 2023 generally saw green shoots emerging.

Text finalised February 23

POLITICS AND POLICY

Luxon asserts himself and National's vision

Christopher Luxon has set the scene for an austere budget and a period of major policy change, arguing Labour's profligate spending and policy confusion has backed the new government into a fiscal corner and left the country in a "fragile" state.

The extent to which there is political acceptance of a narrative that might otherwise be seen as too overtly negative is demonstrated by the fact that neither Labour nor the Greens accused National of "talking the country down".

That attack line was damaging for Luxon when he dissed NZ while he was Opposition leader. Now, he is banking on a permissive environment for swift actions and policy reforms.

His key phrase in the speech was that the coalition government was "not elected to manage decline".

The challenge is to execute successfully and in a strategically coherent way across a very wide range of fronts.

To achieve this, Luxon is drawing on his CEO experience, working to quarterly plans and holding six-monthly performance reviews. Those who underperform know in the clearest terms that Luxon will replace them – with the notable exception of the NZ First and Act party leaders.

In his first State of the Nation speech as PM, Luxon rolled out a new figure of $200b of announced but unfunded transport commitments as evidence of Labour's fiscal untrustworthiness. The number had a kernel of truth to it, but it was somewhat exaggerated, tallying up almost every idea floated by the former government.

Expect more scene-setting from top ministers as we head towards Budget Day, which will be on May 30 this year, making it the latest Budget since 2019.

The Budget Policy Statement will be delivered on March 27. Nicola Willis has confirmed this will include her operating and capital allowance. Willis will also set her new fiscal goals, likely a reduction in core Crown expenses as a share of GDP.

Willis also appears to be considering returning to the "old" net core Crown debt metric, binning Grant Robertson's 2022 upgrade, which made government debt levels seem less scary.

Robertson argued his measure was more comparable with the way other countries measure their debt levels, which helpfully made the country's headline debt figure look smaller.

Net debt on the Robertson measure is forecast to be 23.2% of GDP this year, but 43.5% on the previous measure.

Luxon talked "tough love" in his speech and is giving public sector leaders a clear direction that he wants them to recommend yes/no decisions after what he sees as six years of consultative wheel-spinning.

The primary effect of Luxon's activity over the last week has been to try to wrest back control of a narrative that was not only being set by Act and NZ First, but was focusing the country on negative, introspective, racially charged and divisive questions.

He wants to get back to an economic "turnaround" story. Cracking down on social welfare benefit entitlement among the work-ready but possibly work-shy was part of that.

The government instructed MSD to enforce existing benefit sanctions more enthusiastically, ahead of the rollout of the government's own "traffic light" sanction regime, which will come later this year.

Law changes to index benefits to wages, rather than CPI, and a small hike to the family tax credit abatement threshold, have now been passed. The changes will see benefits rise more slowly, widening the gap between income for those in and out of work.

Parliament mourns Efeso Collins, Greens reel

Parliament this week was consumed with the death of well-liked Green MP and former Auckland mayoral candidate Efeso Collins. It was a further destabilising blow also for the Greens, following the Golriz Ghahraman scandal and the imminent departure of co-leader James Shaw.

Dr Lawrence Xu-Nan is next on the list to enter Parliament, should he wish to take Collins's seat. He would be the first Green MP of Chinese descent. Dunedin ex-student politician Francisco Hernandez is next on the list and would take a seat after Shaw actually resigns.

Water storage – an early win?

Luxon made significant remarks on water storage this week – not in his State of the Nation speech, but in remarks to a provincial newspaper. He expressed a desire to see a swift expansion of national water storage capability.

"We are very pro water storage." he said.

In effect, he is resurrecting the ambitions of Irrigation NZ from the mid-2010s, when the Key government supported but made little progress on water storage.

After the Labour coalition win in 2017, the issue went on the backburner.

Now, it appears to be back, even though it is not a feature of the 100 day plan or the coalition agreements. NZ Apple and Pear board member Cameron Bagrie, writing with his independent economist's hat on, said this week that he believed the irrigation lobby's BIM had landed well with Ministers and that announcements were imminent.

Water storage would be largely privately funded and commercially focused rather than pure public good, with the potential to deliver both economic growth and productivity gains.

On the "three waters' front, however, things are murkier. Labour's ill-fated legislation has been repealed. A new model, however, won't be settled until mid-2025. That is a long time to wait, given that Auckland Council-owned Watercare is threatening a 26% water rate increase this year and Wellington's water infrastructure clearly needs a funding intervention.

There is very little national political sympathy for Wellington city, particularly at present, but there are serious public health and city viability issues if a credible plan to modernise the capital city's water services doesn't emerge soon.

The idea, floated by Herald columnist Fran O'Sullivan, that Wellington's underground infrastructure should have been included in central government-funded repairs after the 2016 Kaikoura earthquake is novel and may have merit.

March 8 deadline for 100-day plan

The Beehive's entire focus is directed at completing the government's 100-day plan, the deadline for which is March 8. About half the 49 promised actions have been implemented, some of them requiring no more than a press statement.

Efeso Collins's created a two day recess, reducing the government's remaining sitting days before March 8 from eight to six but the legislative initiatives in the 100-day plan are mainly the introduction, rather than the passage, of bills.

Still to come is the Police and Justice Minister's Mark Mitchell and Paul Goldsmith's legislation to ban gang patches and introduce greater search powers for gang members suspected of having firearms. Expect that this Sunday, as the government sets a "law and order" theme in the week ahead, having spent last week on benefits. In a few weeks, the government can be expected to revive the Better Public Services targets idea that was core to Bill English's, Key-era, stalled "social investment approach".

Some 10 to 12 very high level targets will be established, creating KPIs for the government. At least some will be about raising school attendance and improving healthcare access.

The remainder of the initial plan promises to "take policy decisions" – a fairly light commitment – to amend the Overseas Investment Act to make it easier for build-to-rent housing to be developed in NZ. Currently, overseas investors are able to invest in build-to-rent developments (with some caveats) – there must be at least 20 dwellings in one or more buildings. A leaked paper from Housing Minister Chris Bishop showed the government was keen to loosen these rules to allow a more liberal regime, including widening the definition of build-to-rent considerably to include single stand-alone houses. There's speculation that this goes too far for NZ First. Whether this is the case depends on who in the party you talk to.

Infrastructure agency close

Another promise in the plan is to start work on the a National Infrastructure Agency, a campaign promise of both National and Act.

The new agency will be built on the bones of Crown Infrastructure Partners, the organisation that led Steven Joyce and Amy Adams' ultra-fast broadband rollout and has since been repurposed to execute other major infrastructure projects. National wants CIP to be given greater powers, although it is not clear what these will be. The agency is meant to have a mandate for "funding, procurement and delivery" of infrastructure. Act wants a focus on the new agency attracting public-private partnerships to the country. Attracting sovereign fund and private foreign capital is a key focus.

Super Defence

The Retirement Commissioner defended NZ Superannuation settings in a report arguing the status quo is sustainable.

NZ spends and is forecast to continue spending a smaller proportion of GDP on pensions than peers, she argued.

Changing the age of eligibility would be unfair for certain population groups. The fairest way to curb costs would be an asset-exclusive means test.

Ferry upgrade

State-owned Enterprises Minister Paul Goldsmith announced a Ministerial Advisory Group to look at next steps for one of the country's most vexed infrastructure projects: the Cook Strait crossing. It will be chaired by Nelson Airport chief executive Mark Thompson and includes Freightways, Auckland International Airport and Sanford director Mark Cairns, and former Cabinet Minister Roger Sowry.

The terms of reference ask it to come back with advice on the next steps for the crossing after 2026/27, around the time the existing ferries would need to be replaced. It is also tasked with considering the long term future of the crossing and who should own the ferry service. KiwiRail is arguing that port-side upgrades are by far the largest element of cost in the upgrade and that central government backing is needed to fund that.

Barbara Edmonds – sure to rise?

Grant Robertson, Labour's finance spokesman for nearly a decade and finance minister for six years, called it quits this week. He'll leave Parliament in March and take up a new role as Vice-Chancellor of Otago University.

Stepping up to the plate is Barbara Edmonds, a former tax lawyer who has worked in Parliament since 2016, first as an IRD secondee to the offices of National revenue ministers Michael Woodhouse and Judith Collins and then to the office of Labour's Stuart Nash in that role. She became an MP in 2020 and Revenue Minister after David Parker's resignation following the wealth tax debacle last year.

Edmonds is highly regarded and is understood to be a quiet champion of the broad base, low rate IRD orthodoxy that has underpinned NZ tax for three decades. She sees tax as a revenue tool, rather than an arm of social policy.

She also appears to believe that a capital gains tax would be preferable to the complexity of a wealth tax, should taxation of wealth and capital become politically winnable.

Labour Policy Council

Labour has recently voted for the five elected places to its Policy Council. Of the five members, two, CTU chief economist Craig Renney, and academic Toby Moore, are former Grant Robertson staffers. Former minister Michael Wood, a voice from the party's left, was also elected. Both Renney and Wood are presumed to have parliamentary ambitions.

Australian naval reconfiguration

It is very early days in the NZ pivot to be a more actively inter-operable defence partner with Australia, but the RAN's proposal to move to a larger number of smaller, better-armed deepwater naval vessels must have caught NZ Ministers' eyes.

Along with long-range naval drones, which the RNZN is testing and could stay at sea patrolling the vast EEZ indefinitely, a replacement for the ANZAC frigates that produced more vessels for less cost each has the NZ approach to defence procurement written all over it.

We look forward to hearing from the Defence Minister, Judith Collins, in Wellington on Feb 27, to hear more about last month's meeting in Canberra between the trans-Tasman defence and foreign ministers, at which a pivotal shift in NZ's defence and security orientation to support its traditional allies was remarkable.

Collins, as science and technology minister, sees a new focus on defence investment as one route for accelerating growth of NZ deep tech capability. The fiscal constraints on such investment are problematic.

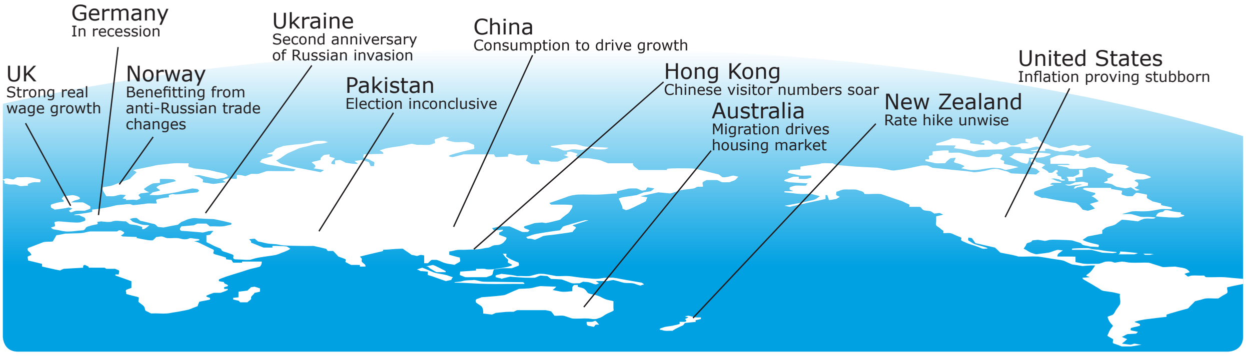
A pre-war world

The death of Alexi Navalny, the Russian "victory" in the former Ukrainian city Adviivka, and the ongoing escalation of tension in the Middle East play into the narrative that has begun to emerge from European politicians that the world has moved from a "post-war" into a "pre-war" period.

Perhaps more accurately, the contours of a new Cold War are now starkly apparent. This is what lies behind the new government's confident embrace of closer defence coordination with traditional Western allies, in particular Australia.

As expatriate NZ economist David Skilling noted in

The world at a glance



his weekly newsletter on global trends in the political economy, growth in defence spending is becoming baked into the thinking of developed democracies. It looks likely to become the latest way governments are finding to justify the fiscal largesse that has blown out state balance sheets thanks first to the GFC and then covid-19.

This is also reshaping so-called "industrial policy", which favours security of supply chains over efficiency, and which none of the political parties in the NZ Parliament currently explicitly addresses.

If anything, the coalition is currently caught by commitments to "end corporate welfare", although that welfare in recent years has been targeted at emissions reductions rather than military projection. A political reframing is possible.

Skilling suggests new geo-political strategic priorities will see big governments spend more on defence, although small states will tend to remain more fiscally prudent.

The global result will be inflationary and put pressure on both central banks and governments.

"Just as it will be challenging for many larger governments to adhere to fiscal guidelines in the face of the pressures from strategic competition," Skilling writes, "pressure will grow on central banks to accommodate some of this fiscal expansion through maintaining lower interest rates and using their balance sheets to absorb government borrowing".

This will be one of the factors strengthening the nascent debate about what inflation rate to target. A new, higher mid-point for inflation targeting is likely to emerge. In NZ, where 1-3% is the target, a debate is ripe for moving that target to between 2% and 4%.

Meanwhile, a new statement on strategic defence priorities is expected in June, a timing that appears to mesh with the timing for the Budget.

A profusion of policy statements

Government Policy Statements came into vogue under the last government, mainly for infrastructure, energy and resource planning. National is, if anything ramping that up.

Work on its transport GPS was in the news this week with leaked documents showing Waka Kotahi thinks the projects (mainly roads, but some public transport) that will become the backbone of the new government's transport plan will cost between $30.9b and $46.6b. The same projects were costed by National at just $22.2b at the election. The revelation is embarrassing for National as it seeks to seed a narrative of Labour profligacy and incompetence. Transport Minister Simeon Brown has signalled an increased reliance on public-private partnerships.

Health Minister Shane Reti will also release the country's first Health GPS, a new tool that is a result of Labour's health reforms.

Reti wants to see the GPS delivered before the Budget. It must be tabled in the House before June. It will look cover three pre-funded budgets: 2024-2027. About $27.5b is expected to be spent by the core public health and disability sector this year.

Trading partner growth

(2021-22 actual; 2023-2025 Hugo and Consensus Forecasts)

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
China	36.2	8.1	3.0	5.2	4.6	4.3	0.9	2.0	0.2	0.9	1.6
Australia	15.4	5.2	3.8	1.9	1.4	2.3	2.9	6.6	5.6	3.3	2.7
United States	12.6	5.8	1.9	2.5	2.1	1.7	4.7	8.0	4.1	2.6	2.2
Japan	6.4	2.2	0.9	1.9	0.7	1.0	-0.2	2.5	3.3	2.3	1.6
Eurozone	5.4	5.6	3.4	0.5	0.5	1.3	2.6	8.4	5.4	2.3	2.0
South Korea	3.4	4.3	2.6	1.4	2.1	2.2	2.5	5.1	3.6	2.4	2.0
United Kingdom	2.8	7.6	4.3	0.1	0.3	1.1	2.6	9.1	7.3	2.6	2.1
Singapore	2.1	8.9	3.6	1.2	2.4	2.6	2.3	6.1	4.8	3.0	1.9
Hong Kong	2.2	6.4	-3.5	3.2	2.8	2.9	1.6	1.9	2.1	2.2	2.1
Taiwan	2.4	6.5	2.6	1.4	3.2	2.7	2.0	3.0	2.5	1.9	1.6
Malaysia	1.8	3.3	8.7	3.8	4.3	4.6	2.5	3.4	2.3	2.5	2.5
Indonesia	2.3	3.7	5.3	5.0	4.9	5.0	1.6	4.2	3.7	2.9	2.9
Thailand	1.8	1.5	2.6	2.3	3.2	3.3	1.2	6.1	1.2	1.3	1.7
Philippines	1.2	5.7	7.6	5.6	5.7	5.8	3.9	5.9	6.0	3.6	3.4
Vietnam	1.6	2.6	8.0	5.1	6.0	6.3	1.8	3.2	3.3	3.6	3.2
India	0.9	9.1	7.2	6.9	6.4	6.4	5.5	6.7	5.4	4.7	4.8
Canada	1.4	5.0	3.8	1.1	0.6	1.9	3.4	6.8	3.9	2.6	2.1
NZ Trading Partners	100.0	6.2	3.1	3.3	3.0	3.1	2.1	4.6	2.9	2.1	2.0
Forecasts for New Zealand											
Consensus		5.5	2.4	0.8	1.2	2.4	3.9	7.2	5.7	3.2	2.2
BNZ Forecasts		5.5	2.4	0.7	-0.1	2.7	3.9	7.2	5.7	3.3	2.3
The World		5.9	2.9	2.6	2.3	2.5	3.6	7.4	5.6	4.2	3.9

Jets cooled – or further pain required?

Reserve Bank governor Adrian Orr said more work is needed to get inflation down even though all measures of core inflation have declined.

"But it's this tail-end [inflation], you know; 4.7 is more than two times 2%, and we've got more work to do to have inflation expectations truly anchored at that 2% level," Orr said ahead of next Wednesday's first Monetary Policy Statement of the year.

ANZ Bank economists stuck their necks out and predicted the first of two rate rises, the second in April, to deliver a shock to onshore or "tradable" inflation,which remains stubbornly higher than non-tradable inflation, which more reflects inflationary pressures in the global economy.

If ANZ were right, that would take the OCR to 6%, but it is an outlier view.

BNZ argued that activity is weak, the labour market is now over-supplied, and inflationary effects from higher tobacco taxes, local body rates, and higher insurance premiums cannot be controlled by monetary policy.

The market consensus remains that the first rate cuts will be late this year or in early 2025, so the "higher for longer" mantra still applies.

Economic indicators

There were 2.96m overseas visitors in the Dec 2023 year, Stats NZ said, up by 1.52m from the 2022 year. NZ started reopening its international border in March 2022. There were 3.89m visitor arrivals in the year to Dec 2019, pre-covid.

Annual net migration was 126,000 in the Dec 2023 year and appears to be peaking, while being the largest increase for a calendar year and close to the record of 134,400 in the Oct 2023 year. More NZ citizens left the country than returned. The government is actively considering whether a "population policy" statement should be part of the immigration GPS (*see p.5*)

Food price inflation increased by 0.9% in Jan.

House prices increased by 0.4% in Jan compared to Dec, according to REINZ's house price index. The number of properties sold in Jan was up by 4.9% compared to Jan 2023. Sales numbers in Auckland fell by 17.2% vs the same month last year, with the rest of NZ having a 16% increase in sales.

CoreLogic's latest housing affordability report said that mortgage repayments accounted for 49% of annual household incomes, staying in the 49-52% range of the past two years. The long-term average is 37%. It is now taking more than nine years on average to save the deposit for a house, slightly higher than the previous quarter, but still below the peak of 11.5 years at the start of 2022.

On average, the 38 people surveyed as a part of the RBNZ's quarterly Survey of Expectations believed the annual inflation rate would fall to 3.22% (from 4.7%) by this time next year and 2.5% by early 2026.

Auckland's central city economy is breaking away from the rest of the country as high-value service industries, GDP and employment growth outpace NZ, says Infometrics. The economic consultancy measured Auckland city centre's GDP at $30.4b in the year to March 2023 for a 9.2% increase from a year earlier, compared with a 2.9% increase for the country as a whole. The country's GDP was $377.8b.

The BNZ-Business NZ Performance of Manufacturing Index rose 3.9 points to 47.3 points from 43.1 in Dec. A reading below 50 indicates the sector contracting. All the PMI's sub-indices remained in contraction apart from employment.

Employment (51.3) was in slight expansion for the first time since Feb 2023 but new orders remained contractionary for the eighth month in a row, albeit on a rising trend.

A survey of more than 500 firms by MYOB showed 44% expecting better economic conditions vs 33% expecting a decline.

Two-fifths of those surveyed were having better than expected performance, with a third saying revenue was higher and 40% expecting an increase over the next 12 months.

More than two-thirds of respondents in Consumer NZ's latest insurance satisfaction survey said they were concerned about the cost of house insurance, with 8% letting policies lapse due to high costs.

Corporate earnings season

Earnings reported in the last fortnight by NZX-listed companies balancing either at Dec 30 or June 30 gave a mixed picture of the NZ economy.

Electricity gen-tailers' results reflected their relative renewable positions, insurance companies did well because premiums rose sharply on risk re-ratings without a new disaster to pay out on.

Retailers appear to expect a better 2024, airlines are confident about leisure, but not business travel, except on long haul.

Air NZ painted a picture of a sharp cutback in government travel, although leisure travel is holding up across both domestic and international routes.

Primary Sector

Fonterra is to merge its NZ and Australian businesses as **Fonterra Oceania,** acknowledging that the two arms can and should be managed in a complementary fashion in a market increasingly requiring scale for global success.

Fonterra also increased its 2023/24 season forecast farmgate milk price midpoint to **$7.80 kgMS, up from $7.50 kgMS**. The forecast range for the season also increased to $7.30-$8.30 kgMS, up from $7 to $8 kgMS following five strong global dairy trade auctions.

Landcorp Farming, trading as **Pāmu**, recorded a net operating profit of $3m for the six months to the end of Dec, down from $15m in the same period the year before.

a2 milk is investing heavily in Chinese language social media marketing on platforms aimed at young parents as part of a strategy to cement its place in the top 10 of Chinese infant formula brands. Despite a declining Chinese birthrate, a2 market share is increasing. For 1H24, it spent $137m marketing on social media platforms and reported NPAT of $85.3m, ahead of expectations. Ebitda rose to $113.2m with an Ebitda margin of 13.9%. a2 finished the half with $792.1m in cash.

Synlait Milk, in which a2 holds a nearly 20% stake, faces two serious challenges in coming months. Next month, it must make debt repayments of $130m and in Nov the company will be seeking to refinance $180m of bonds. Synlait is in the process of losing a2 as a key customer. Focus is now on whether and how Bright Dairy, a nearly 40% Chinese investor in Synlait, will behave. It appears Synlait's most valuable asset may be its registration allowing product sales in China. The company expects to report a first-half loss of $17m-to-$21m in March, driven by increased financing and operating costs.

Trans-Tasman Resources is optimistic it will get access to the new fast-track consent process when it becomes available, though it says no promises have been made and previously successful, litigious environmental activist opponents have their doubts.

Zespri is expecting to ship around 193m trays of kiwifruit – up from 133m shipped last season. Forecasts for this season are $9 a tray for green kiwifruit, compared to last season's final orchard gate return of $5.78 a tray. **SunGold Kiwifruit** returns are forecast at $12.35, up on last season's final OGR of $9.97. Zespri said fruit quality issues in 2022 had dented the confidence of some buyers.

Energy and resources

Contact Energy reported a net profit of $153m for the six months ended Dec 31 and Ebitdaf of $354m. This included a $29m reduction in the onerous contract provision of the Ahuroa Gas Storage facility. Underlying net profit was up 70% on the comparable last year to $134m, and Ebitdaf was up 26% to $325m.

Mercury reported a net profit of $174m 1H24, down $65m on the prior comparable period due to higher depreciation, interest charges and net changes in fair value. Ebitdaf came in at $434m, $17m down on last year, which was dominated by higher hydro inflows. Operational expenditure was up $31m to $191m mainly due to increases in employee-related expenses and maintenance expenses mostly from wind contracts.

Genesis Energy suffered an unexpected outage on its most efficient thermal plant and faced low hydro inflow and significant IT upgrade costs in H124. It reported ebitdaf down 32% at $202m.

The Electricity Authority is asking for views on whether there needs to be greater coordination of how lines companies and the national grid are run and whether **Transpower's** roles should be split.

The **Commerce Commission** has begun consulting on the "financeability" of electricity network expansion in response to growth driven by decarbonisation.

Banking, finance and insurance

IAG NZ's insurance profit rose to A$204mn ($218m) in H124, up from A$136m in the same period of the prior year. Despite losing customers, its gross written premium rose by 20% to A$1.5b. AIG's NZ brands include **State**, **NZI**, and **AMI**.

Tower raised its NPBT guidance to be at the upper end of the previously advised range of between $22m and $27m for the year to Sept 30.

ASB reported an 11% fall in 1H24 NPAT, at $749m. Net interest margin dropped 26 basis points but remained strong by global standards.

Westpac reported a 6% decrease in unaudited net profit for the first quarter of 2024 to $1.5b. The bank's net interest margin for the quarter was 1.78%. However, its unaudited net profit excluding notable items remained flat at $1.8b.

Commerce Minister **Andrew Bayly** announced the government would repeal the **Business Payment Act,** a Labour government initiative to force timely payment of invoices by large businesses to SMEs.

Telecommunications, media & entertainment

Tag group, a British-based travel management company that handles some of the world's biggest entertainment acts, has acquired NZ corporate travel specialists **Red Hot Travel and Events** and entertainment specialists **Sound Travels**.

TVNZ's group-wide cost-cutting continues after substantial cuts to the ranks of senior management already.

Foley Wines took ownership of wine and food festival Toast Martinborough.

Wholesale and retail

KMD Brands' shares fell after it told the market its preliminary results for the half year ended Jan 31 would indicate group sales will be approximately $469m, -14.5% below last year, reflecting ongoing weakness in consumer sentiment.

Transport

Port of Tauranga reported a 1H24 drop in profit of 24.7% to $47.2m and said it was losing market share to **Ports of Auckland.**

South Port said cargo volumes in 1H24 were down 14%. Net profit after tax was $3m compared with $5.2m in the first half of 2023.

Freightways reported net profit after tax of $40.9m for the first half of the financial year down 9.5% on the $45.2m comparable result. Ebita was flat at $74.4m, reflecting higher labour costs, rent increases and a slowdown in temperature-controlled transport.

KiwiRail said it had spent at least $424m on the Interislander replacement project up to Dec 31, not counting break fees from terminating a $551m contract with South Korean shipbuilder Hyundai Mipo Dockyard for two rail-enabled ferries. KiwiRail has engaged **McKinsey & Company** to undertake a strategic review of the business.

Airports on both sides of the Tasman objected to a proposed codeshare agreement between **Air NZ** and **Virgin Australia** for trans-Tasman flights as it would reduce competition and increase airfares.

AirNZ led a vociferous attack on the regulatory approach to **Auckland International Airport** but Commerce Minister **Andrew Bayly** says he wants to see the ComCom process play out in Sept first.

Manufacturing and construction

Vulcan Steel reported a 52% fall in NPAT to $26.1m. It expects an improved second half of the year after difficult trading conditions drove the Australasian steel distributor's earnings down by 30% in the first half, leading to a reduction in its interim dividend to 12c from 24.5c.

Fletcher Building chair **Bruce Hassall** and chief executive **Ross Taylor** said they will step down after another the announced a $120m net loss after tax for the half year to Dec. A result much worse than many expected. It cited "materially" weaker trading conditions in the residential sector, with business volumes falling by a fifth and earnings before interest and tax declining 26.7% to $264m.

Freightways' results for the six months ended Dec showed net profit of $40.9m against $45.2m in the previous comparable period on revenue on $620.7m vs $552.1m. It said volumes in its express package division were up marginally, but gains in market share were offset by lower volumes from regular customers – particularly in Big Chill. Its top-line revenue growth was mainly driven by the recently acquired Allied Express in Australia, while underlying earnings were flat as it faced higher labour costs, rents for Big Chill and a slowdown of some customers.

Du Val Property Group continued to attract negative headlines with question raised over its solvency, its plans to swap debt for shares in the company and threat of legal action from investors. The Auckland property developer and non-deposit taker is offering 200m $2 shares to convert lenders' debt from investors in its mortgage and build-to-rent BTR funds to equity in a restructured Du Val Property Group.

Steel & Tube Holdings' net profit was $5.3m in the six months to Dec 31 versus $11.8m in the same period a year earlier, on subdued trading. Revenue fell 17% to $261.8m, on a 22.2% drop in volume. Normalised earnings before interest and taxation were $11.3m, which was at the top end of guidance.

Courts, legal and regulation

Civil proceedings against **SkyCity** for alleged breaches of anti-money laundering laws were confirmed by its regulator. On Feb 12, the casino operator told the NZX it faced legal action, which carried penalties of up to $8m.

An **Institute of Chartered Accountants** tribunal suspended chartered accountant **Wayne Bailey** for four years for misconduct.

Service industries and healthcare

AFT Pharmaceuticals expects operating profit to range between $23m and $25m, up on earlier guidance of $22m to $24m following the first sale of its intravenous pain-relief medicine in the US.

Ryman Healthcare lowered its underlying profit guidance for the 2024 financial year to be in the range of $265m to $285m down from the previous guidance of $300m to $330m due to lower new sales of occupation right agreements.

Vital Healthcare Property Trust has kept its earnings relatively stable in the face of interest-rate increases with the strategic divestment of assets.

The company posted a net loss of $113m for the six months to Dec 31 2023, compared with a loss of $30.1m for the same period the year before.

The investor report attributes this primarily to property revaluations.

Profits and losses Vital's pre-tax and other income operating profit was $37.5m, up 4.4%, on a net property income (NPI) of $73.4m, up 0.5%.

Tourism

Air NZ reported an expected dramatic drop in earnings in 2H24 and is increasing domestic fares to restore margin in the largest part of its business, where it has market dominance. Engine remediation issues affecting both its Boeing 787s and Airbus 320-neos will cause 18 months more of unavoidable friction in the business, which is costing the airline some $85m on an annualised basis until the friction passes.

Tourism Holdings reported a lower than expected first-half result with net profit after tax of $39.7m, down 5% on comparable period due to soft US and NZ sales volumes.

Property

Winton Land sold 158 units during the first half of the year, with NPAT falling 71.9% to $9.7m, on increased overheads and cost of sales.

NZ Rural Land Company is buying and leasing three Hawke's Bay apple orchards and forestry blocks for $27.6m.

Capital markets

MHM Automation will delist from the NZX main board following a takeover bid.

NZX is moving to match **ASX** disclosure notifications after the Australian exchange released more information on **Fletcher Building's** trading halt than NZ investors received.

The City of London Investment Trust is set to delist from the NZX main board in March

People

Genesis Energy's chief financial officer, **James Spence**, will step down from his position and return to Australia.

The long-serving CEO of **Skellerup, David Mair**, will step down on March 31. In nearly 14 years in the top job, Mair has overseen a period in which Skellerup's stock value rose over 400%. Mair is handing responsibilities to current chief financial officer **Graham Leaming**. **Tim Runnalls**, the group financial controller for the past three years, will replace Leaming as CFO.

The chief executives of the **Financial Services Council** and **Employers and Manufacturers Association** announced their resignations within hours of each other on Monday. FSC head **Richard Klipin** is leaving after seven years in the role. EMA CEO **Brett O'Riley** will fade out from June.

The project director for the redevelopment of the New Zealand Antarctic research station **Scott Base** is leaving in May, becoming the latest senior figure to resign from the troubled build.

Tourism Holdings' deputy CFO, **Steven Hall** will be acting CFO from March as a longer than expected search for a permanent appointment continues.

PGG Wrightson is handling an attempted board takeover by Singaporean former chair, **Alan Lai**. The Overseas Investment Office required now 44% shareholder Agria to divest below a controlling stake in PGW after the US **SEC** won proceedings against Lai, who is now promoting prominent Maori business leader **Traci Houpapa** and ex-Contact Energy chief customer officer and recent appointee to the **Orion** electricity network board, **Vena Crawley**, to replace existing directors. NZ-based directors have countered by replacing the overseas based Agria nominated chair, **U Kean Seng**, with local independent director, **Garry Moore,** and set up a special committee to vet candidates for the board.

Moore is requiring that "all current and nominated directors should provide full disclosure to the Nominations Committee of their credentials ahead of the Special Shareholders Meeting", a date for which has yet to be set. PGW reports its 1H24 earnings next week.

Lai was forced out of PGW after the OIO won a High Court action on breaches of good character rules required of foreign investors.

Property for Industry (PFI) announced **Dean Bracewell** will become the company's new chair.