HUGOvision

Assessing the economic and political environment in New Zealand

August 23 2019 | Confidential to HUGO members

Urban development policy advances
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A string of policy announcements on central govt direction of urban development, protection of so-called ‘elite soils’, an Auckland-to-Hamilton development corridor, and Auckland light rail are important steps in the govt’s economic agenda. But is it all too slow?

Suddenly, the economy matters for Labour
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A softening economy, coupled with a growing focus on the extent to which infrastructure pipelines have been disrupted by the govt’s change in priorities from the previous administration, is a serious risk to a govt whose hold on economic credibility is fragile.

‘Street-fighter’ Bridges off the leash
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Also troubling for the govt must be the fact that, while still barely registering as a preferred PM, Simon Bridges is finding his feet as Leader of the Opposition. An unapologetically more aggressive style seems to suit him and to be a counter to his main rival, Judith Collins. The parties of govt, however, are waking up to the Trumpian/Brexit playbook and hoping NZers will react against importing that style of politics to NZ.

Nats’ big choices as election year looms
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National faces two big political choices. Firstly, whether to embrace NZ First as a possible coalition partner and hope to love them to death at the polls by drawing soft National support away from Winston Peters. And secondly, how to position for the zero carbon legislation. Farmers want a hard line. Business wants consensus. Both are key National constituencies.

Freshwater decisions due Sept 5
Page 4

David Parker will announce decisions from the govt’s Essential Freshwater policy programme on Sept 5, representing the culmination of another key plank of the govt’s policy agenda.

Negative interest rates? Don’t discount it
Page 5

The RBNZ’s unexpectedly aggressive interest rate cut this month was intended to delay any need to consider the use of unconventional monetary policy tools. However, negative interest rates cannot be discounted and are starting even to look likely. These are uncharted waters and will test the bank’s ability to communicate effectively and retain confidence in its capability.

Regional airline and TV headaches
Page 7

History shows that even the threat of losing regional air services or a major TV broadcaster can have political consequences. The govt will be watching closely, albeit unlikely to act, as TV3 executives openly discuss its demise and Jetstar warns its services to regional centres are loss-making and are being “closely monitored”.

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POLITICS AND POLICY

New funding options the missing link in urban policy

The govt has put three major stakes in the ground that will guide the future development of cities, and Auckland in particular.

These are the release of draft National Policy Statements on Urban Development and Highly Productive Land, and the announcement of a joint central/local govt partnership to develop the Auckland-Hamilton corridor (*see graphic*).

The highly productive land, or '**elite soils', decision is politically popular and therefore necessary to pave the way for Auckland to grow** across the flat plains and through the Bombay Hills to the south of the city.

The NPS-UD, which replaces National's 2016 effort, represents the triumph of Urban Development and Environment ministers Phil Twyford and David Parker to wrangle a combination of more compact urban form centred around public transport nodes, reduced car use, and ensuring that cities can expand beyond existing urban boundaries - **as long as developers and new residents pay the cost of new infrastructure.**

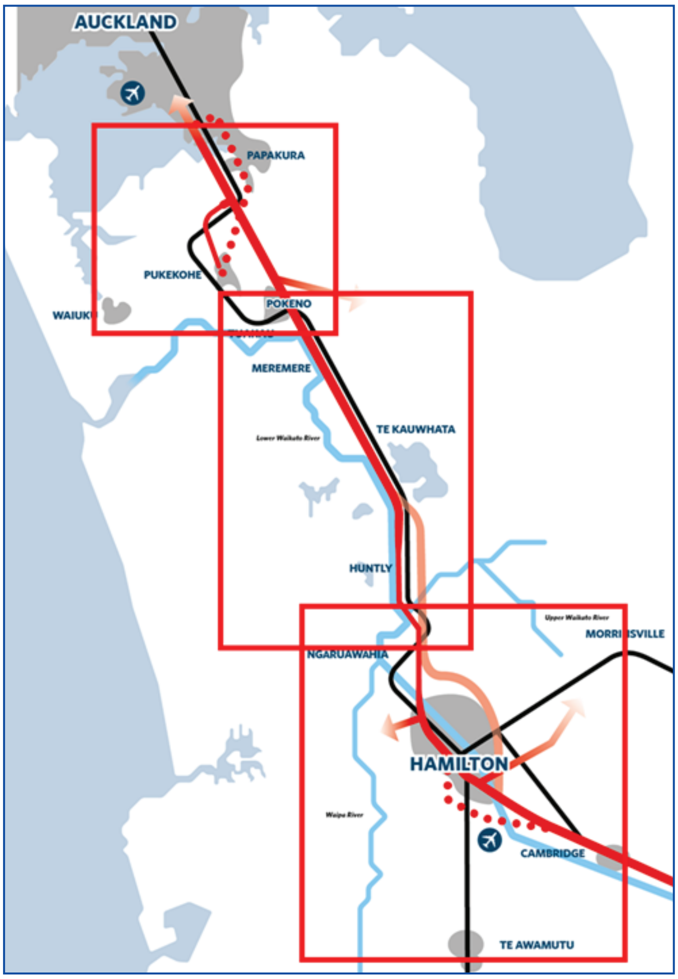
This remains a key missing piece of the puzzle. Until there are long term alternative financing structures that allow inter-generational recouping of new infrastructure costs, the more accommodating regulatory framework will be no more than helpful, rather than transformative.

Meanwhile, a govt business case will look at the potential for 160km/hr trains between Hamilton and Auckland. A $78.2m five-year trial of a regular commuter service between the two cities is expected to start early next year.

For all that progress on high policy may be welcome, the **politics of infrastructure is still problematic for the govt.** On-the-ground **focus is finally sharpening on the impact of cancelling big chunks of roading infrastructure** committed by the previous govt, and NZTA budget shortfalls that have emerged for such projects as the Levin expressway.

In that context, it's difficult to imagine how NZTA could emerge the preferred candidate in the two-way contest also announced this week for choosing who will construct the proposed Auckland light rail project.

The **joint bid by the NZ Super Fund and Quebec pension fund-backed CDPQ Infra looks the clear favourite.** However, here again, the process timetable means no work will begin in 2020, Twyford has confirmed.



Political challenges if rates go negative, deficits emerge

Conventional political wisdom in NZ holds that National is more trusted than Labour as a safe pair of hands with the economy.

That explains Labour's relative caution on fiscal policy, where very conservative net Crown debt targets have been maintained despite pressure from parts of its constituency for loosening the purse strings. Labour has also continued to support inflation-targeting by an independent central bank and pursued only minor - arguably cosmetic - reforms in times of very low unemployment to include employment goals in the RBNZ's mandate.

Backed by a strong economy, **the Labour-led administration has been given a fair bit of rope by the public as it pursues its well-being economics agenda**.

But what if the economy not only turns down, but also produces some things NZers have either never seen before - negative interest rates - or have learnt to fear, such as a return to Budget deficits? **Both are on the cards** (*see Domestic Economy section on* *negative interest rates*). In the case of deficit spending, **it should be uncontroversial for fiscal stabilisers to lean against a downturn.** The Budget Responsibility Rules explicitly contemplate this by targeting surpluses over the economic cycle. The John Key govt had no such qualms after the GFC.

However, would it be that easy for Labour? Economic competence is one of this govt's Achilles heels. The PM's grasp in this area is shaky at times and, as UMR polling we recently highlighted shows, there was an **upward spike in scepticism about the 2019 Well-Being Budget**'s capacity to improve individuals' circumstances.

This is dangerous territory for a govt whose major party is still less popular than the main Opposition party, even with a very popular PM and an Opposition leader still struggling to connect.

In other words, **economic conditions are turning in National's political favour**.

That makes **Monday's launch in Auckland of National's economic policy discussion document worth watching,** if only to judge what capacity the party and finance spokesman, Paul Goldsmith, has to exploit this emerging new environment. **Expect a splash on new funding for infrastructure, including a strong play for more PPPs** to accelerate progress on the national infrastructure deficit.

"Letting Simon be Simon"

Simon Bridges appears increasingly confident about his leadership and to be **actively honing the "dirty little street fighter"** persona identified by his wife and key political weathervane, Natalie.

His personal ratings as preferred PM are as weak as ever, but National itself continues to ride higher than Labour in public polls. The **party's internal polling saw a big lift from 41% to 46%** when Bridges attacked the govt's EV incentive scheme as a tax on ordinary NZers' gas guzzlers. Those ads are now the subject of advertising standards complaints, but their political impact is clear.

The **incessant talk of a challenge from Judith Collins has disappeared**, at least for now, perhaps because Bridges is choosing to emulate her more aggressive style of politics.

Some in National are uneasy with the potential for the party to overdo its pursuit of Trump/Brexit-style political tactics. **The Greens and Labour are calling those tactics out as toxic for NZ. That could resonate** with the electorate.

However, for **as long as this more 'muscular' approach from Bridges benefits the party** and succeeds in undermining the halo around PM Jacinda Ardern - the 'part-time PM' and similar taunts have been effective - **his internal critics are likely to be acquiescent.**

One sign of National's enthusiasm for the political style that also helped Scott Morrison unexpectedly retain power in Australia is the creation of a permanent NZ office of Aussie-based global PR firm **Crosby Textor.** The firm opened an Auckland office in Jan and **the company registered a NZ corporate entity last month.** CT has advised National in past elections but has not previously had a permanent NZ presence.

Ihumatao - stalking horse for Maori Party ambitions

Bridges is also emboldened because of **the range of issues starting to erode PM Ardern's brand with some core constituencies.**

And National's former ally in govt, the **Maori Party, is attempting to build its renaissance on the stalled Ihumatao land dispute.**

The party has deep roots in Tainui and is close to the Kingitanga, which is seeking to mediate in the dispute, and is using those dynamics to put heat on Labour's Maori MPs. Willie Jackson's concession this week that the Labour Maori caucus needed to show results in the next few months was telling.

While Corrections Minister Kelvin Davis's plans to reduce the Maori prison population represent such action, that initiative is overshadowed by Ihumatao, the Oranga Tamariki child uplift inquiries, and the govt's apparent U-turn on applying benefit sanctions on parents who abuse drugs and alcohol.

Of course, there is nothing to say that a revived Maori Party would work with National again. Bridges has been uncompromising in calling for the Ihumatao protesters to be removed. But even one Maori electorate seat lost by Labour to the Maori Party could see the emergence of a potential partner for National after next election day.

Wired defence force

Cabinet has approved tranche two of the Network Enabled Army programme of upgrades to enhance intelligence, surveillance and reconnaissance capability. It involves capital spending of up to $106m over the next four years.

However, the govt turned down a request to contribute a frigate to an international force to patrol the Gulf of Hormuz, saying that would leave the RNZN too stretched at home.

Nats face choices on Winston and zero carbon

National has two fundamental decisions to make before the election.

The first is what to do about Winston Peters. As long as Peters is NZ First leader, forming a govt with NZ First would be anathema to most National Party members and many MPs. Peters's proposal that Paula Bennett - newly appointed National's election campaign chair - should resign to settle his defamation case against her has confirmed for many MPs that his ongoing vendetta against leading members of the Key / English govt makes working with him impossible.

But there are **wise heads within National who caution against taking too hardline a stance**. They argue that leaving the door open to NZ First might reduce the potential for National's vote to bleed away to Peters **if soft National supporters perceived NZ First as the only brake on an inevitable second term Labour-led govt.**

Bridges appears genuinely undecided, just telling colleagues that it is a very hard decision. But one of his most loyal lieutenants, Todd McClay, has a good relationship with Peters, as do Gerry Brownlee and Judith Collins.

Meanwhile, Peters himself has spent a week recuperating from surgery, setting off a new round of speculation about whether the septuagenarian strongman really has another term in him.

Zero carbon – the methane conundrum

National's other hard issue is the Zero Carbon Bill. The party is coming under pressure from two sets of core constituents from different angles.

Farmers want National to take a very strong stance, including opposing the bill, unless the 47% upper methane reduction limit is removed.

Business leaders, embodied most obviously in the Climate Leaders Coalition covering more than 100 of the country's largest businesses, are pushing for cross-parliamentary certainty on an issue that affects long term investment decision-making.

Bridges has been arguing that what is in the bill is largely irrelevant because National will surely have been in govt again by 2030, when the 47% limit would begin to impact, and would be able to change it. Likewise, the Climate Change Commission could review the target at the first five year review point and reduce it. So Bridges has not committed National to voting against the bill.

Labour could yet reduce the 47%, although it **would require a backdown by the PM herself, who is believed to have been a prime advocate.** NZ First agreed to it in exchange for farmers getting a 95% emissions credit when farming comes into the ETS.

Freshwater decisions on Sept 5

Environment Minister David Parker unveils decisions from the Essential Freshwater process on Sept 5.

This will include detail of a **fast-track, two-step RMA process that he has hinted is in the works to help local govts implement new freshwater standards by 2025.** Many councils have indicated it will take them until 2030 and Parker does not want to wait that long.

NZ First may be seeking a tradeoff in the zero carbon regime against what farmers fear will be draconian nitrate limits in the National Environmental Standard that the decisions will contain.

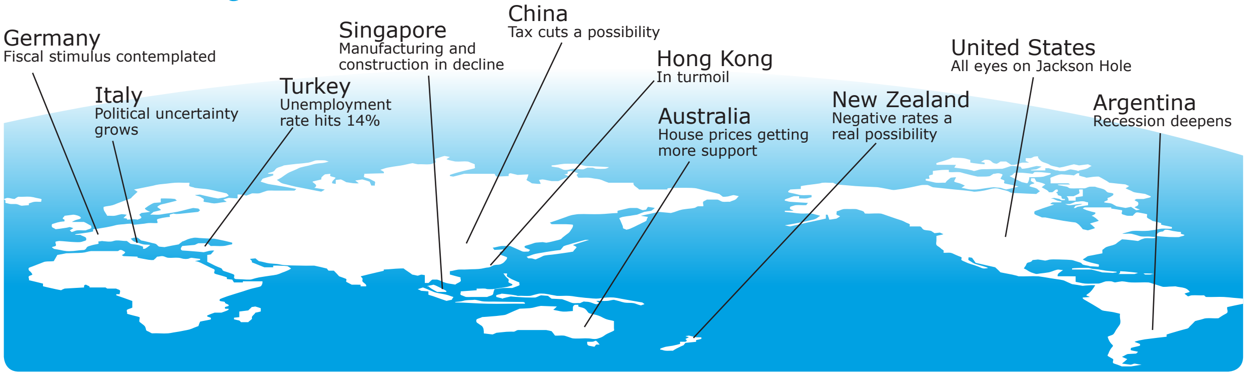
Modelling by Dairy NZ indicates that this could cost an average dairy farmer between $7,000 and $14,000 a year depending on the timeframe for implementation and the actual limits imposed.

Add that to agriculture coming into the ETS, the M Bovis levy and a reduced Fonterra payout and there would be electoral advantage to any party which could show it had reduced that impact.

KiwiBuild reset imminent

The KiwiBuild programme lost another senior executive, with head of delivery Helen O'Sullivan leaving at the end of the month. However, not too

The world at a glance



much should be read into that. O'Sullivan was on a six-month contract that began in Feb and is leaving to become CEO at Colliers in Auckland.

Housing Minister Megan Woods is expected to take a **paper to Cabinet next week on the much-delayed KiwiBuild and broader housing policy 'reset'**, with decisions to be announced shortly afterwards. In the meantime, she and associate minister Kris Faafoi announced a $54m package of measures aimed at making a swift impact on homelessness.

Open access to transport fuels infrastructure looks inevitable

The big three transport fuel companies - Z, BP, and Mobil - will almost certainly be forced to open access to their terminals and other wholesale infrastructure to help improve competitiveness in the retail sector.

The Commerce Commission's draft market study builds on the pressure for structural reform that emerged under the previous govt and is presumably preferable to all parties if the alternative is price control.

A final report is due in Dec. and the political opportunity to move on this issue in election year is obvious.

More woe for banking sector

The ANZ Bank's attitude to the Financial Markets Authority's requirement that it restate its 2017 accounts to record a related party transaction involving its former ceo, David Hisco, suggests there is more water to flow under this bridge.

The bank continues to insist that it did not see the sale of a bank-owned home, in which Hisco had lived, to Hisco's wife at below market value was a "material" transaction.

That view might fly in a roomful of lawyers, but it is a provocation to politicians, especially if it transpires the ANZ's reluctant compliance stems from other, as yet undisclosed, disputes with its regulators.

The calls for a commission of inquiry into banking, which the govt has resisted to date, may become harder to ignore.

Policy costing unit a can of worms

Cabinet has agreed an independent Parliamentary Budget Office should be set up as an Officer of Parliament and be operational in 2021. Its main task will be to give independent policy costings on govt and political parties policies. The office is set to be operational from mid-2021. An interim costing unit for the 2020 election will be hosted by the Treasury.

We predict the unit will struggle in its task. Simply costing a static spending proposal is one thing. But **new policies have dynamic consequences**, which occur in the future. **Those dynamic consequences are the stuff of politics.** Any judgements such an independent unit makes about policy impacts will be open to charges that it, too, is engaging in the political process.

Trading partner growth

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

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
China	29.1	6.8	6.6	6.2	6.0	5.8	1.6	2.1	2.4	2.3	2.4
Australia	19.1	2.4	2.8	1.9	2.5	2.6	1.9	1.9	1.6	1.9	2.4
United States	11.5	2.2	2.9	2.3	1.9	1.8	2.1	2.4	1.8	2.1	2.3
Japan	7.3	1.9	0.8	0.9	0.3	0.7	0.5	1.0	0.7	0.8	0.8
Eurozone	6.5	2.5	1.9	1.1	1.2	1.2	1.5	1.7	1.3	1.4	1.6
South Korea	3.6	3.1	2.7	2.0	2.2	2.5	1.9	1.5	0.7	1.4	2.0
United Kingdom	3.2	1.8	1.4	1.2	1.2	1.6	2.7	2.4	1.9	2.0	2.1
Singapore	2.7	3.9	3.1	1.1	1.9	2.5	0.6	0.4	0.8	1.2	1.6
Hong Kong	2.4	3.8	3.0	1.3	1.9	2.4	1.5	2.4	2.4	2.4	2.3
Taiwan	2.5	3.1	2.6	1.9	1.9	2.1	0.6	1.4	0.8	1.1	1.4
Malaysia	2.1	5.9	4.7	4.4	4.4	4.7	3.8	1.0	0.9	2.0	2.5
Indonesia	2.1	5.1	5.2	5.0	5.1	5.1	3.8	3.2	3.1	3.5	3.6
Thailand	1.9	4.0	4.1	3.1	3.2	3.4	0.7	1.1	1.0	1.2	1.4
Philippines	1.6	6.7	6.2	5.8	6.1	5.8	2.9	5.2	2.8	3.1	3.6
Vietnam	1.5	6.8	7.1	6.6	6.4	6.2	3.5	3.5	2.9	3.7	3.8
India	1.5	7.2	6.8	6.8	7.0	7.4	3.6	3.4	3.7	4.2	4.6
Canada	1.5	3.0	1.9	1.4	1.7	1.7	1.6	2.3	2.0	2.0	2.0
NZ Trading Partners	100.0	4.1	3.9	3.4	3.4	3.4	1.8	2.0	1.8	2.0	2.2
Forecasts for New Zealand											
Consensus		3.1	2.9	2.5	2.6	2.4	1.9	1.6	1.6	1.9	2.0
BNZ Forecasts		3.1	2.9	2.4	2.6	2.5	1.9	1.6	1.5	1.9	1.7
The World		3.2	3.2	2.6	2.6	2.6	2.5	2.9	2.6	2.6	2.9

Negative interest rates become more likely

A scenario is emerging where weak economic growth could see the once unthinkable – negative interest rates in NZ. On the current outlook, it's possible to see how the RBNZ could justify taking the benchmark OCR as low as -0.5%.

Business owners and investors need to prepare for the potential for such conditions to emerge over coming months, notwithstanding RBNZ deputy governor Christian Hawkesby's speech in Manila this week where he said this month's 50bps rate cut was intended to delay the need to consider unconventional monetary policy.

The negative rates scenario could emerge if, as seems likely from many current leading indicators, economic growth fails to live up to the RBNZ's expectations.

If the central bank continues to see the world through the lens it used when it put together the August MPS, downside risks eventuate, and inflation then looks likely to fall, then a move to negative interest rates becomes close to inevitable.

Note, **negative interest rates are not in themselves considered "unconventional policy"**. In a sense, they are the step that comes before that. If the normal transmission mechanism produces an economic response, negative rates should stimulate economic activity and inflation.

Since negative rates would eventually encourage cash hoarding and break that normal transmission, there is probably only so low they can go – perhaps -0.5% in NZ's case. Savings and borrowing rates offered by banks would still be slightly positive in such circumstances.

Only if cutting interest rates does not have the desired effect would the RBNZ contemplate going down the unconventional track.

As Hawkesby said this week: "More decisive action now gave inflation the best chance to lift earlier, reducing the probability that unconventional tools would be needed in the response to any future adverse shock." However, as a contingency, the bank is undertaking further preparatory work on unconventional monetary policy tools.

Should the RBNZ go down that track, its impact would most likely be transmitted through a weaker NZ dollar than through the credit channel.

Further action might then also be required through fiscal easing which, as noted in the Politics section this week, is fraught with risk for a govt that has made much of its targeting and achieving Budget surpluses.

Coupled with the **RBNZ governor Adrian Orr's penchant for unscripted and sometimes miscued communications** on the bank's intentions, these developments are becoming unnerving for the business community.

That prompted Business NZ's Kirk Hope to call on the RBNZ to focus on a "conservative, principles-based, no-surprises approach to monetary policy."

Orr, who is being shielded from public speaking engagements, was blunt in response, saying: "we cannot, and do not, set the OCR based on current or historical inflation and employment outcomes. We scan the horizon and chart for the journey. We look ahead - not behind".

Sentiment indicators

Sentiment in the domestic services and manufacturing sectors is diverging. The **BNZ-BusinessNZ performance of services index** rose 1.7 points from June to a seasonally adjusted 54.7 and was 1.5 points higher than in July 2018. The long-term average is 54.4.

However, the **BNZ-BusinessNZ performance of manufacturing index** dropped 2.9 points to 48.2 in July, falling below the 50 level separating expansion from contraction for the first time since Sept 2012.

A **Federated Farmer**'s survey found a net 51.6% of 1,432 surveyed farmers - more than half of them dairy - expect economic conditions for farmers to deteriorate in the coming year, compared to a net 40.8% in Jan.

A net **44% of farmers said they are currently turning a profit**, down from a net 46.7% in Jan, but were **less pessimistic about earnings over the coming year**, with a net 4.1% predicting a decline in profits compared to a net 11.4% in Jan.

Almost a quarter cited climate change policy and the **ETS as their biggest concern,** followed by **regulation and compliance costs at 19%.**

Debt, interest and banks were third on the list, with a net 27.6% of farms carrying debt predicting to reduce those loans over the coming 12 months, up from a net 24.8% in Jan.

New population estimate

The estimated NZ population reached **4.92m at 30 June 2019**, says Stats NZ. The largest driver of growth was net migration of 49,400, with 145,300 migrant arrivals and 95,900 migrant departures. Natural increase (births minus deaths) contributed 26,600.

Primary sector

Fonterra expects to report a full-year loss of $590m to $675m and won't pay a dividend as it writes down $800m from the value of global assets. Impairments of $200m each in the carrying value of **DPA Brazil** and **China Farms** and, most surprisingly, NZ operations were announced. Australian assets attracted a $70m writedown. The co-op's two biggest shareholders – **Dairy Holdings** and state-owned **Landcorp** – expect Fonterra's downgrade and no dividend will weigh on their own earnings and add to farmer malaise against a backdrop of already weak confidence.

A2 Milk shares fell despite another strong lift in revenue and profit. While growing in China and the US, it announced its exit from the UK. Net profit in the year to June 30 rose 47% to $287.7m on revenue of $1.3b, up 41.4% on the year. Analysts noted the results were slightly below market expectations and raised concerns about margins.

The **Global Dairy Trade** auction price index slipped 0.2% from the previous auction two weeks ago. The average price was US$3,255 a tonne, compared with US$3,253 a tonne. Whole milk powder climbed 2.1% to US$3,100 a tonne.

PGG Wrightson reported a 29% slide in annual earnings from its remaining businesses as the M bovis outbreak curbed farmer spending. Operating earnings were $24.4m for the year to June 30, down from $34.5m and fell short of $25-$30m guidance.

Agriculture Minister Damien O'Connor established a taskforce on animal welfare and winter grazing.

NZ Coastal Seafoods has listed on the ASX after raising $5m to fund operations and facilitate the restart of trading of its shares.

The **Commerce Commission** wants more information from Fonterra on what it thinks the cost of cutting carbon emissions will have on the milk price paid to farmers.

Telecommunications, media and entertainment

Spark lifted annual profit 12% to $409m in the 12 months ended June 30, from $365m a year earlier, with operating revenue unchanged at $3.53b. The telco cut operating spending by 4.3% to $2.44b, which helped boost operating earnings by 11% to $1.09b, in line with guidance.

Huawei formally warned the govt in a letter, subsequently leaked, that it may pull out of NZ if it is blocked from working on 5G upgrades. The local unit of the Chinese telco was also added to a US import black-list, along with other Huawei subsidiaries around the world.

Sky TV made two significant moves to demonstrate its revived strategic intent. First, it bought online rugby platform RugbyPass for up to US$40m. It will pay US$10m in cash up front, issue US$20m of stock, and pay up to US$10m more based on performance for the platform, which offers a live streaming rugby service across Asia, Australia and Europe. The move does not give access to **SANZAR** matches but does expose Sky to growing rugby markets around the world. Secondly, it has bought naming rights to Wellington's 'cake tin' stadium, previously owned by Westpac. At the same time, Sky announced a $670m asset writedown to produce a loss for FY19 of $607.8m and won't pay a dividend for the first time since 2005 as it prepares to fight for content rights.

TV3 senior executives are lobbying either to gain govt assistance for its commercially challenged TV business or to encourage a merger between state-owned **TVNZ, RNZ,** and **Maori TV**. Neither appears not to have legs as a concept. TVNZ's latest statement of corporate of intent says ministers have agreed to forego dividends and to accept post-depreciation losses as the state broadcaster competes with global streaming TV alternatives such as **Netflix**.

KPEX, a four-way automated online advertising buying collaboration between the country's largest media companies is being wound up after one of the four - Australian-owned **Stuff** - withdrew its involvement as part of a strategic review of its operations under new owner **Nine Entertainment**.

The **Sale and Supply of Alcohol Act** will be amended to allow licensed premises to remain open for **Rugby World Cup** matches.

Transport and tourism

Civil Aviation Authority chair **Nigel Gould** resigned at the request of **Transport Minister Phil Twyford**, who said he wanted fresh leadership. The Ministry of Transport is currently reviewing the culture at the CAA and its performance in regulating helicopters and small aircraft.

Air NZ announced a 31% fall in net profit to $270m in the year to June 30, reflecting higher fuel costs, softening domestic, inbound tourist and global travel demand. The airline's 10.4% return on capital employed was the lowest in six years and well below its 15% target. **Qantas** subsidiary **Jetstar**'s services to NZ regional centres are loss-making and market conditions are being "carefully monitored". Air NZ and **Cathay Pacific** have had their alliance on NZ and Hong Kong capacity extended through to 2024.

Auckland International Airport's underlying profit after tax was $274.7m for the year to June 30 vs $263.1m a year earlier. Revenue lifted 8.7% to $743.4m while earnings before interest, tax, depreciation, fair value adjustments and investments in associates was $554.8m, up 9.6%.

Queenstown Airport revenue rose 9% to $49.6m and net profit after tax was $16.6m, up 11% in the year ended 30 June. The airport has also been granted Requiring Authority status over **Wanaka airport**.

Tourism Holdings' net profit will comfortably exceed the top of its $25m-$27m forecast, thanks to $1.8m of US tax benefits.

Uber will begin operating in Rotorua, Taupo, Napier-Hastings, New Plymouth, Palmerston North and Nelson in Oct.

Energy

Mercury NZ's operating earnings declined to $505m in the 12 months ended June 30 from a record $566m a year earlier. It was better than forecast as solid geothermal generation offset a dry spell that affected its hydro output. Record net profit of $357m included a $177m gain on sale of its **Metrix** metering business.

Contact Energy's full-year operating earnings rose 12% to $505m in the year ended June 30, from $449m a year earlier. This excludes the RockGas LPG business and the Ahuroa gas storage facility, which the firm sold in the first half for $390m. Excluding one-time gains, underlying net profit was $176m, up from $112m.

Banking, finance and insurance

The **FMA** is requiring **ANZ**'s NZ local unit to restate its accounts with acknowledgement of the related party transaction that saw the bank subsidiary sell a bank-owned home lived in by former ceo **David Hisco** to Hisco's wife. ANZ said it disagreed with the FMA's finding but would comply.

Moody's says slow credit growth, low interest rates and rising costs will weigh on the profitability of NZ banks in the next 12 to 18 months. **Fitch** predicted the govt's popularity would wane as the economic slowdown takes hold.

Heartland Group's net profit for the 12 months ended June 30 rose to $73.6m from $67.5m the previous year. Lending growth overall rose 10.7%.

Australian health insurer **nib Holdings** will review its risk and culture policies in NZ as trans-Tasman financial services come to grips with the regulatory crackdown on the sector.

Insurers stopped writing travel cover for NZers travelling to Hong Kong after ongoing protests and amidst concerns China may escalate its response.

Construction and Infrastructure

Fletcher Building posted a $164m annual net profit, a turnaround from the previous year's $190m loss in the first year of a five-year revival strategy. Ebit of $631m was within guidance of $620m - 650m. Its Australian business produced ebit of $57m, down from $114m the previous year.

Precinct Properties has withheld $34m from **Fletcher Construction** for delays on Auckland's **Commercial Bay** project, but says the development is on track for its 2020 opening. Precinct reported a 3.7% boost in operating earnings to $79.4m from $76.7m. Net profit fell by 25.4% to $190.1m, with the previous year boosted by property revaluations.

Former RBNZ governor and APEC Secretariat head **Alan Bollard** has been appointed chairman of the government's Infrastructure Commission. **Jon Grayson,** currently a deputy secretary at Treasury, has been appointed chief executive.

Manufacturing

BlueScope Steel's NZ business reported a 28% drop in full-year operating earnings due to higher costs and a drop in export prices. Sales revenue, which includes BlueScope's Pacific Island operations, increased to A$888.1m for the 12 months to June 30, up 7% from a year earlier. But earnings before interest and tax fell 28% to A$80.6m. First-half earnings had been 75% higher at A$71.9m, only to plunge to A$8.7m in the second half.

Capital markets

Napier Port debuted at $2.91 on the NZX, up 12% on its initial public offer price, reflecting pent-up demand after an oversubscribed bookbuild earlier this month. Hawke's Bay Regional Council raised $234m selling 90m shares, or 45%, of the port operator.

NZX's first-half net profit rose to $6.4m from $4.4m, which included $2.5m in losses from sold businesses.

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