Deloitte.

The impact of COVID-19 on Māori Land Entities
Part 2: Preparing to Recover

Prepared for Te Puni Kōkiri to support Māori Land Entities through COVID-19

May 2020

HOURUA PAE RAU
Deloitte Māori Services

Contents

Introduction

Nā tō rourou, nā taku rourou, ka ora ai te iwi - while working in isolation might result in survival, working together can take our communities beyond survival and onto prosperity

The Whenua Māori team at Te Puni Kōkiri has commissioned Deloitte to prepare a series of three reports on COVID-19 impacts for Māori land entities.

This series of reports provides information for Māori freehold land owners to support key decision-making that will impact their whenua and their whānau.

The first report focused on **How to Respond** - managing business continuity.

This second report focuses on **Prepare to Recover** and provides:

- **Action points** on how Māori Land Entities can prepare to recover from COVID-19.
- Preliminary views on the **current economic impact** of COVID-19 on the land-based sectors.
- A discussion on **how different the COVID-19 recession** is to the Global Financial Crisis, including a discussion on fiscal stimulus policy.

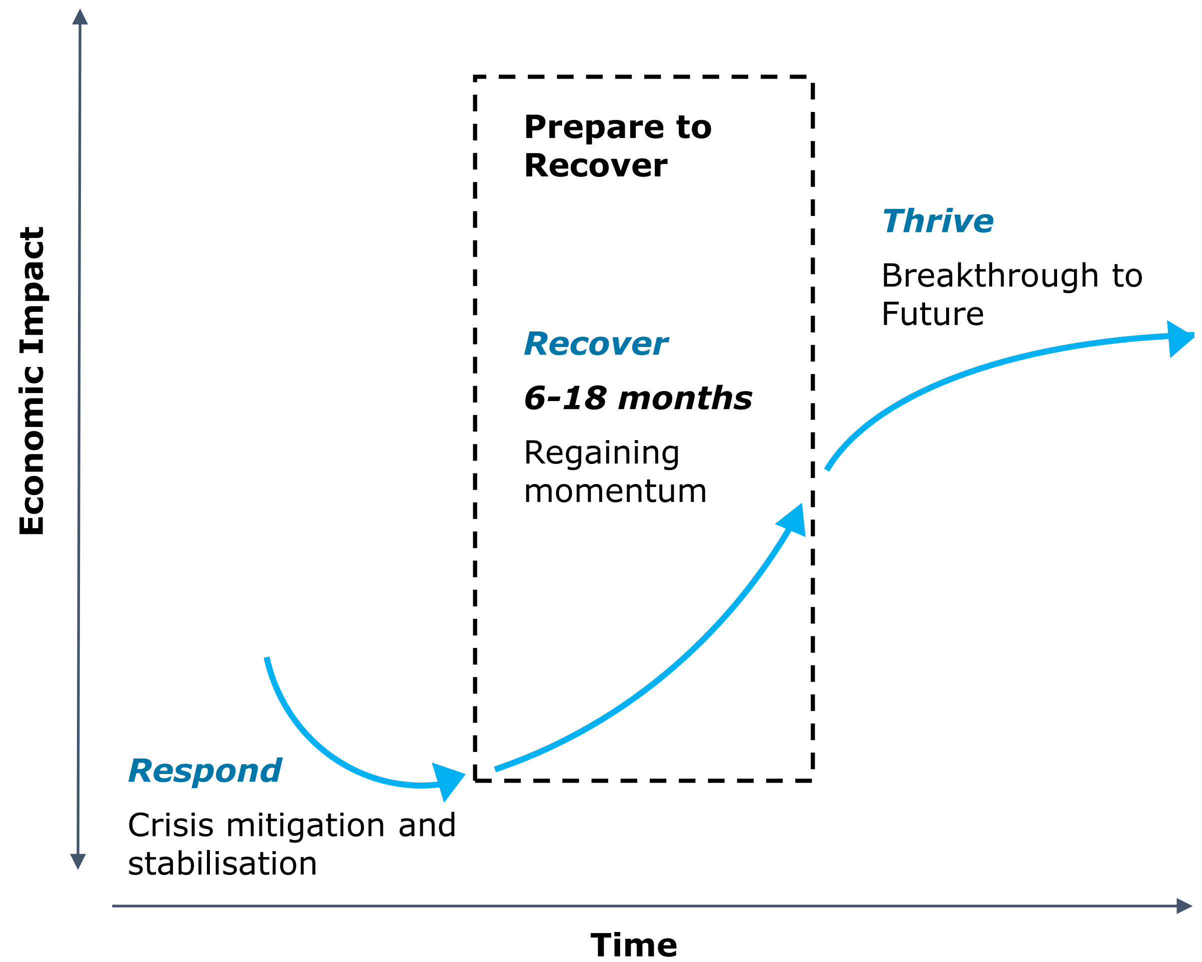
Given the complexity of the pandemic, there is reason to believe that the economic recovery phase will require unprecedented levels of coordination and collaboration during a challenging and potentially protracted recovery period.

Planning your recovery will allow your business to learn from the challenges and changes you incorporated during the lockdown. Furthermore, the actions that a company takes during this period can set the foundation for sustained growth and performance long after the pandemic is over.

The next report will focus on how Māori Land Entities can **prepare to Thrive**.

Now is the time to prepare to recover

Recovery for the economy is expected to take at least 6 to 18 months. After this period, Māori Land Entities should be able to thrive in a world where there is a "new normal".



Note: Steepness and duration of the curve shown is indicative and will differ by region, sector, and Māori Land Entity.

COVID-19 | Preparing to Recover

Critical questions for Māori Land Entities

Priorities	How to prepare to recover
Command Centre The team responsible for responding to the crisis	• What lessons have you learned from the response period that can be documented and reflected in your recovery plan? • How does your communication strategy need to change with the gradual start up of the economy (e.g. what messages are going out to the team and stakeholders to manage uncertainty)?
Talent & Strategy The plan for our staff	• Do you have a plan to manage employees returning to work, and scaled workforce requirements? • Based on financial forecasts, how much run way do you have before you need to consider redundancy/ reduced working hours/ talking to your staff about using their leave balance? • Are there specific capability skills sets that you need that could be filled by upskilling existing staff members, or by hiring new employees that may recently be out of a job?
Business Continuity & Financing Our continued existence as a business	• Have you developed financial forecasts across three revenue and capital scenarios – low impact, medium impact, high impact? • Consider sizing your operating model for your support functions (fixed vs variable resources; people power vs technology). • Do you have business interruption insurance or other contractual claims that would realise cash? • Have you considered the timing of planned/new capital investments, and thought about the efficiencies that capital investment might provide if invested in earlier rather than later?
Supply Chain The resources we need to operate our business	• Are you engaging with key suppliers on a regular basis to understand their ability to provide goods and services? • Do you have a contingency plan for supply chain disruption? • Are you managing your inventory, supplies and cash flow through agile execution? • Have you considered the future cost of logistics in your future product pricing?
Customer Engagement How we stay in touch with our customers	• Are any customers struggling and may be unable to pay for the goods and/or services? • Have you considered using alternative sales mechanisms and platforms (e.g. Afterpay, Amazon etc)? • Are there alternative customer engagement activities and promotions that would assist in shifting stock (i.e. discounting outdated stock, bundling of products, incentivising positive customer behaviours/referrals etc)?
Digital Capabilities The technology and support systems we need in the future	• Consider how you can maintain or improve your digital sales platforms to continue to sell products virtually. • How secure are your systems and IT infrastructure? • Do you have any concerns with system stability, network robustness and data security (not just yours but your customers and stakeholders too)?

COVID-19 | Impact on key sectors for Māori Land Entities

An overview - preliminary assessment of sector impacts

Overview

At the time of writing this report, **we were moving to Alert Level Two and the 2020 Budget had just been announced.**

New Zealand's GDP is expected to contract between 6% to 10% over 2020, and the unemployment rate is expected to be between 5.3% and 9.5% in Q2 2020 (Major Banks).

Currently, 6% of the working-age population is receiving Jobseeker Support, which exceeds the number of people that were receiving the support during the Global Financial Crisis (Ministry of Social Development).

Under Alert Level Two, GDP growth will pick up as sectors slowly re-open and pent-up demand is released. Lost ground will not be regained quickly, but COVID-19 will eventually pass.

Under Alert Level Two, key factors to take into account are:

- Māori Land Entities are likely to face the **challenge of rising costs and lagging revenues**. Firms are struggling to cut operating costs at the same rate as revenues decline, putting pressure on margins.
- Māori Land Entities need to determine their **ability to operate with capacity limited** by social distancing. Keeping customers and staff one to two metres apart could challenge the viability of many sectors.
- Recovery will depend **on the spending behaviour** of households, the ability to **export** to other countries, and whether **restrictions** are still in place or eased.
- The **challenges for government and business are becoming more complex**. The Rebuilding Together 2020 Budget provides strong support for Māori Land Entities during the recovery phase.

COVID-19 shock waves through our Māori land sectors - updated views

Short term	Alert Level Two	**H**	High impact	**N**	Neutral or low impact
Long term	Impact through 2020, assuming the Government's response is effective	**M**	Medium impact	**O**	High demand/opportunity

Sector	Short term	Long term	Influencing Factors				
			Budget initiative/ funding	Travel Restriction/ Reduced travel/ Lockdown in NZ	Supply Chain Interruption	Reduced Consumption/ Interruption to Retail Operation	Working Capital Pressure
Dairy	M	M	X		Some impact	Some impact	X
Horticulture	N*	N	X	Some impact	Some impact	Some impact	X
Forestry	M*	M	X	X	X	X	X
Commercial Property	H	M*		X		X	X
Fisheries	H	M	X			X	X
Sheep & Beef	M*	N*	X		X	Some impact	X
Geothermal	N*	O					
Tourism	H	H	X	X		X	X

*An * indicates a change in view from the first Respond Report. Changes have occurred as a result of recent Budget announcements and the move to Alert Level Two. The outlook for Tourism and Fisheries has not changed as the impact is still expected to be severe.*

COVID-19 | Impact on key sectors for Māori Land Entities

What is the exposure risk for Māori Land entities across key sectors?

Impact on economic activity as we move into Alert Level Two

COVID-19 impact on economic activity by sector is scaled from "halted or significantly reduced" (where economic loss could be permanent, e.g. downsizing an airline fleet) through to where supply and demand continue as usual. This table has been updated from the Respond Report to reflect the easing of restrictions in Alert Level Two.

	Activity halted or significantly reduced	Activity reduced	Activity slightly reduced	Activity relatively un-impacted
Consumer	International travel (planes and cruises)	Hotel and Restaurants Leisure (e.g. cinemas, sports) Domestic travel	Real Estate purchases Luxury goods (influenced by income constraints) Investment management Discretionary purchases (influenced by income restraints)	Essential goods (such as food, health and utilities)
Business	International travel (planes and cruises) Events	Fisheries Hotel and Restaurants Domestic travel	Commercial property services Wholesale, transport and distribution Dairy Forestry	Horticulture Power and utilities

COVID-19 | Impact on key sectors for Māori Land Entities

Updated map of the hardest hit sectors over 2020 – uncertainty lowers for some sectors at Alert Level Two

This sectoral impact map focuses on **key sectors for Māori Land Entities** based on the information we know today.

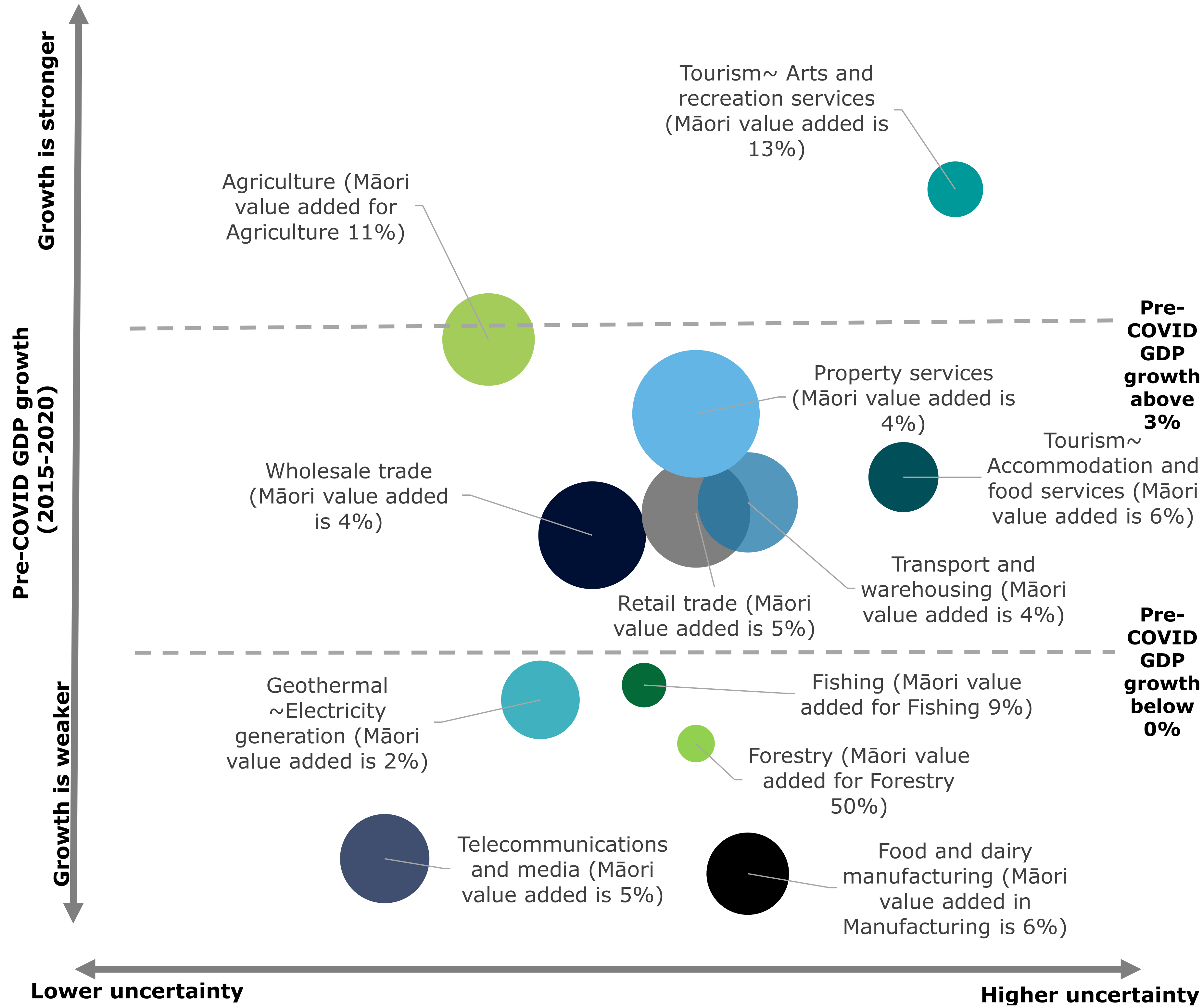
In our view, the extent of the impact for each sector is influenced by the interaction of **the Pre-COVID-19 GDP growth, for each sector, and the perceived uncertainty**.

The **vertical axis reflects the Pre-COVID-19 GDP growth** from 2015 to 2020. There are two lines on the map positioned at 3% Pre-COVID-19 GDP growth and above; and below 0% GDP growth over 2015 to 2020.

The contribution of each Māori sector is based on the 2013 BERL report and the total New Zealand gross value added for each sector in 2013.

The horizontal axis reflects the perceived uncertainty in the sector, incorporating the extent to which a sector is exposed to exports, labour and capital intensity of the sector, as well as current information on the demand and supply factors for each sector.

The size of the circle reflects the relative size of the sector within the New Zealand economy as at December 2019.



Source: Statistics New Zealand, BERL 2013

COVID-19 | Impact on key sectors for Māori Land Entities

Updated high-level commentary on potential sector impacts

Fiscal stimulus support was also considered in the assessment on the sector impacts. See page 14 and 15 for details on the budget recovery support.

Target sector	Short term	Long term
Dairy	• Dairy prices have softened globally but international supply is constrained, which will limit downside risks. • The projected milk price for the current season is $7.15/kg, a bigger fall due to COVID-19.	• Overall, dairy market uncertainty remains. This uncertainty is likely to prevail until global lockdowns are fully lifted and a clearer sense of global demand becomes evident – which could be months away. • A wide range of milk prices are possible for the 2020/21 season. ASB retain a $6.50/kg forecast, but suggest that farmers contingency plan for a sub-$6.00/kg milk price for the 2020/21 season.
Horticulture	• A lack of cool storage space and a potential shortfall of workers may reduce kiwifruit picking. • The strong growth in the horticultural sector has been reflected in a jump in horticultural land use, and fruit exports have become New Zealand's fourth goods export engine.	• A primary risk for horticulture processing is the break-out of COVID-19 within picking and packing teams. This risk will likely continue until the country is out of COVID-19 Alert Levels. • Local displaced workers are transitioning into fruit picking roles, with expected short term productivity losses as they adjust to these roles.
Forestry	• Forestry had a decline in exports of 47% over the period 01 February to 30 April. Exports are likely to re-emerge albeit at lower export prices. • Logs prepared for exporting pre-lockdown have deteriorated in quality whilst waiting for exports to open.	• There are potential demand impacts from China for New Zealand logs, due to the removal of tariffs on lumber sourced from North America. • Government spending on infrastructure projects is expected to increase which is likely to increase domestic demand for timber, but also for the skills and machinery currently held within the forestry sector.
Commercial Property	• Reduced income prospects and shifts in the supply-demand balance will create pressure for reduced rents. • The pullback in rents and capital values for retail properties is expected to be more severe than those for industrial and office properties.	• RICS anticipate a 0.4% rent increase for prime industrial properties. However a total decrease of 3.7% for New Zealand commercial rent is expected over the next 12 months. • Capital value expectations are less dramatic, with a total decrease of 2% for New Zealand commercial property values over the next 12 months.

Source: Deloitte, ANZ, RICS, Newland Burling & Co

High impact | Neutral or low impact | Medium impact | High demand/opportunity

COVID-19 | Impact on key sectors for Māori Land Entities

Updated high level commentary on potential sector impacts

Fiscal stimulus support was also considered in the assessment on the sector impacts. See page 14 and 15 for details on the budget recovery support.

Target sector	Short term	Long term
Sheep and beef	• Meat processing plants are close to achieving full levels of production (beef rising to 100%, sheep to 90%). • Panic buying of quality protein in the United States has resulted in an increased demand for New Zealand red meat. • The recent drought is having a significant impact on farming businesses.	• A change in consumer behaviour towards purchasing red meat online and seeking healthier food options could see demand for trusted sources of protein increase in places like China and the United States. • Continued feed pressure across the country will carry on impacting farmers, especially if a cold dry winter impacts feed growth levels.
Geothermal	• Level Two will allow a higher number of on-site staff, meaning the focus can move from core operations to customer work. • Energy demand is down by approximately 15%, but expected to pick up again with the re-opening of commercial businesses.	• Demand increases to pre-COVID levels as the economy opens up. • Opportunity to work with the government and customers to ensure a low-carbon energy sector for a more sustainable New Zealand.
Tourism	• A team has recently been established to ensure Tourism New Zealand is set up to work in the domestic space. Research shows that 65% of New Zealanders want to explore more of their own country. • The majority of hotels anticipate large numbers of redundancies despite the wage subsidy scheme.	• The option of a trans-Tasman bubble is currently being explored, with the possibility of expanding to the Pacific. • Long-term success will depend on the tourism sector's ability to pivot to a domestic and trans-Tasman markets.
Fisheries	• Expectation that businesses maintain one metre physical distancing in Level 2, unless there are mitigating factors. • Seafood exports are down. Exports were significantly lower for Q1 2020 than 2019 for rock lobster and shellfish.	• Demand for luxury products and fish exports expected to remain low while the economy recovers.

Source: Deloitte, ANZ, RICS, Newland Burling & Co

High impact — Neutral or low impact — Medium impact — High demand/opportunity

COVID-19 | Impact on key sectors for Māori Land Entities

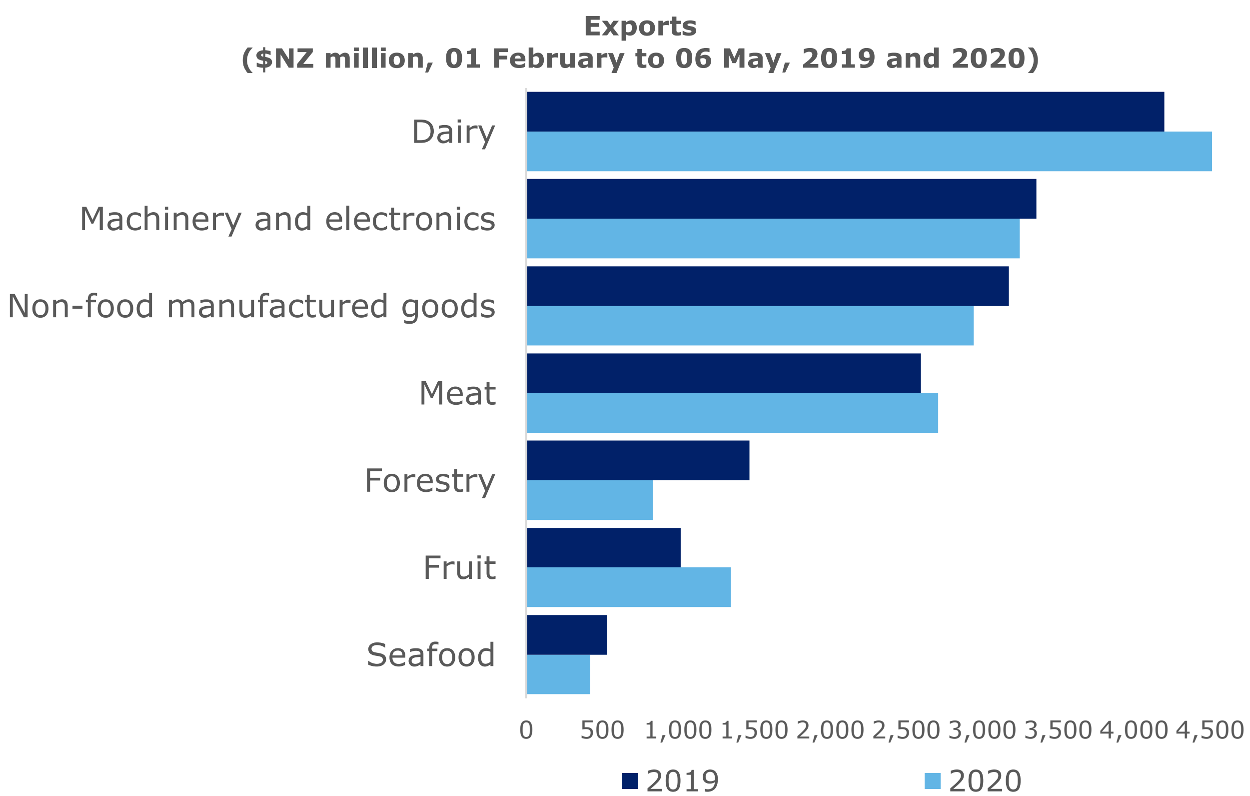
Key rebound economic indicators relevant to Māori Land Entities

Exports

New Zealand exports are facing uncertainty during COVID-19 due to reduced demand and supply chain disruptions.

The COVID-19 impact can be seen in a comparison of the period 01 February to 06 May for 2019 and 2020:

- Sectors which have seen positive exports are **Dairy, Fruit and Meat,** with **positive growth of 19%, 33% and 4%** respectively.
- **Forestry and Fisheries** have seen **negative growth of -43% and -21%** respectively.
- Non-food manufactured goods and Machinery and electronics all experience negative growth between -3% and -7%.

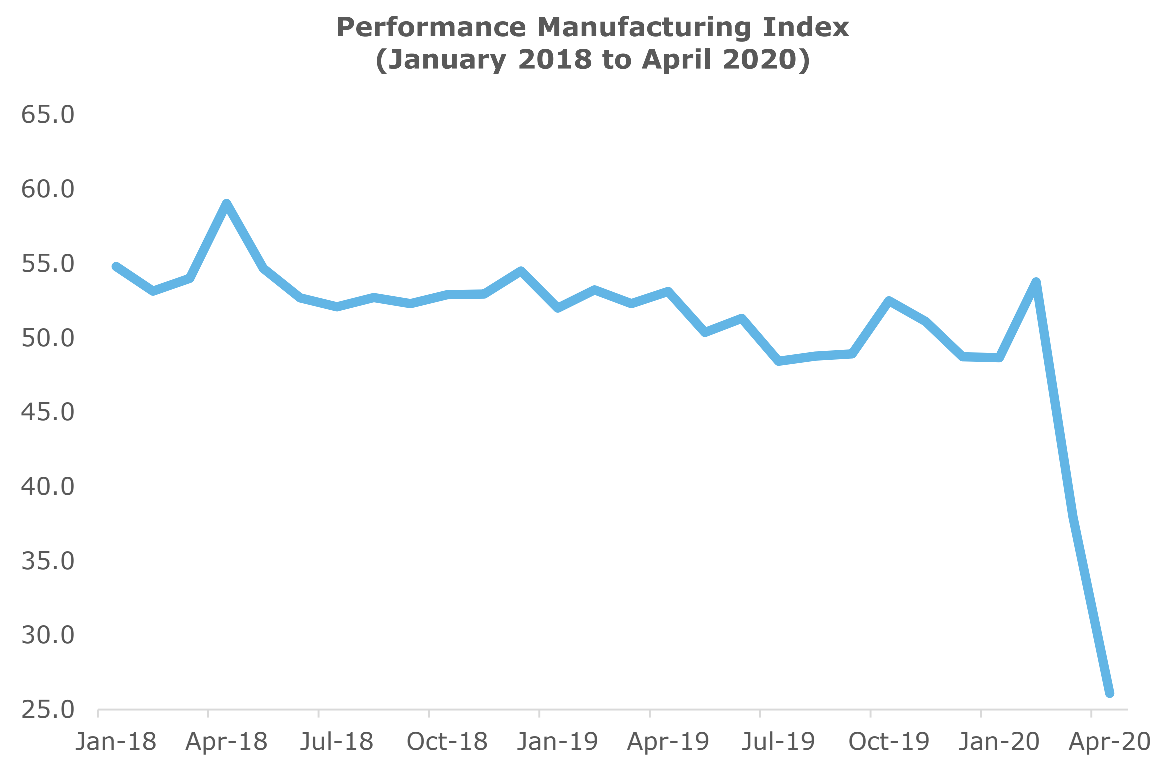


Source: Statistics New Zealand

Performance Manufacturing Index

PMI is an early indicator of economic activity. A PMI reading above 50 points indicates manufacturing activity is expanding; below 50 indicates it is contracting.

- The **PMI dropped to 26.1 in April.** This is **lower than** a low of 36.1 experienced during the Global Financial Crisis.
- **The PMI is expected to return to relatively stronger levels of activity**. However, this depends on businesses' ability to get new orders up and running, along with revised factory floor processes for production.
- Internationally, **China is currently the only country with a rebounding PMI**. China has significant demand for New Zealand export goods, which will help to speed up New Zealand's recovery.



Source: BNZ

COVID-19 | Impact on key sectors for Māori Land Entities

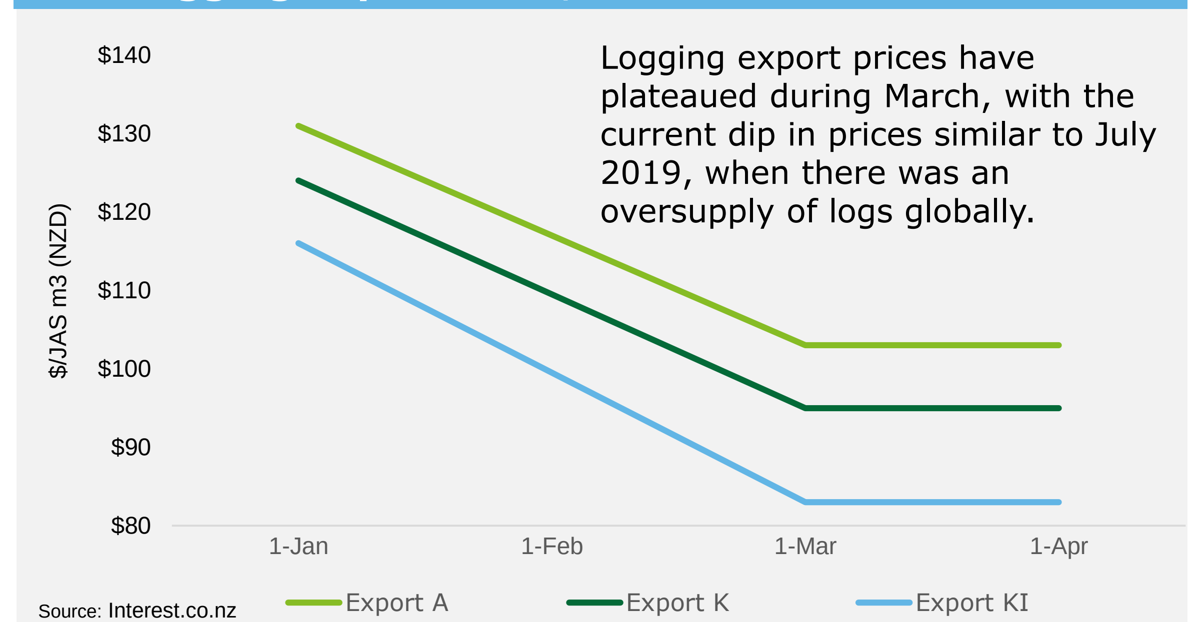
Key rebound economic indicators relevant to Māori Land Entities

The first three indexes (Global Dairy Trade, Logging Exports and Live Cattle) align closely with the discussion for these sectors earlier in the report. The Crude Oil Index influences the input cost for most land-based sectors.

Global Dairy Trade Index, 2019/20

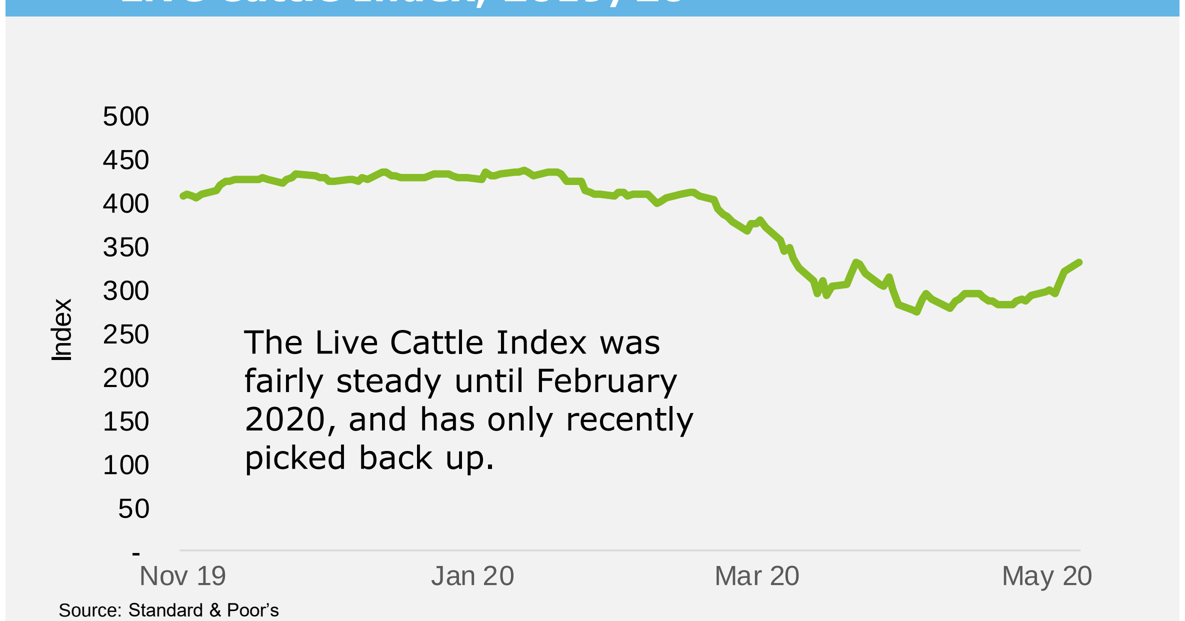
Source: Global Dairy Trade

Logging Export Price, 2020



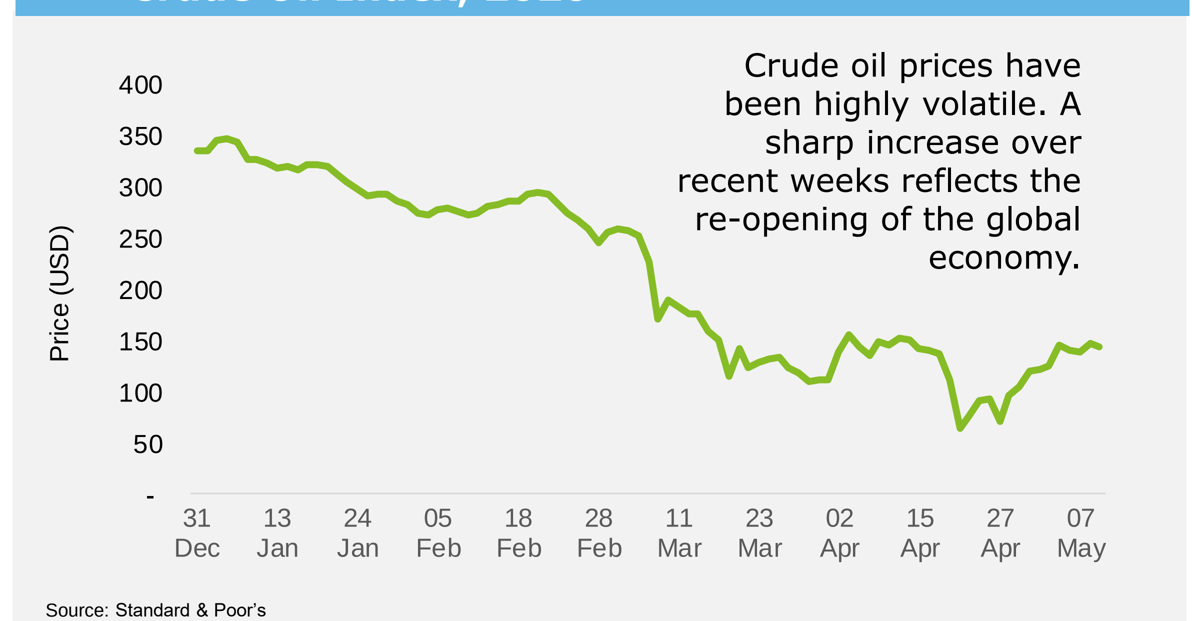
Source: Interest.co.nz

Live Cattle Index, 2019/20



Source: Standard & Poor's

Crude Oil Index, 2020



Source: Standard & Poor's

COVID-19 | What makes this recession so different?

While the Global Financial Crisis (GFC) can be informative in understanding the potential outlook, COVID-19 raises a number of additional complexities

The five influences below explain the unique aspects of the COVID-19 economic recession

Dual global supply and demand shock

- Historically, Global downturns have been caused by **either** a demand or supply shock, not both.
- COVID-19 has **impacted demand** through lost jobs and income and **reduced supply** through forced business closures and disrupted supply chains.

The Reserve Bank has very little ammunition to deploy

- The **Reserve Bank cut interests rates** to support lending and economic activity.
- The **official cash rate** has been cut to a record low of 0.25%. This means fiscal policy is required more to lift New Zealand out of the crisis.

Interconnectedness of the global economy

- New Zealand has **close links with China**, with 20% of New Zealand's total trade going to China, compared to 5% in 2003.
- The lockdown and travel disruption globally has resulted in a **slowing of imports and exports**.

Closure of borders and domestic mobility restrictions

- COVID-19 has **curtailed overseas travel** into New Zealand as countries try to protect their citizens against the outbreak.
- Regional **domestic travel was suspended** under Alert Levels Four and Three.

Willingness of Government to spend

- New Zealand is in a good position to support the economy to recover. The Government debt ratio to GDP was 19.3% pre-2020 Budget.
- The $50 billion COVID-19 recovery Budget highlights Government's **willingness to spend.**

Forecasts illustrate that COVID-19 is expected to be more severe than the GFC

COVID-19 scenario forecasts (as at April 14th, assuming no fiscal stimulus) vs Global Financial Crisis

COVID-19				GFC			
March year	GDP	Unemployment rate	Māori unemployment rate	March year	GDP	Unemployment rate	Māori unemployment rate
2019/20	1.5%	4.50%	8.7%	**2008/09**	0.3%	4.7%	8.7%
2020/21	(13.5%-34%)	9.5%-24.5%	19%-30%	**2009/10**	0.8%	6.4%	13%
2021/22	10.5%-29.5%	6.5%-12.5%	14%-27%	**2010/11**	2.9%	6.2%	14%

Source: Treasury COVID-19 and GFC forecasts, Māori unemployment rate based on Statistics New Zealand and Deloitte's own estimate. Treasury COVID-19 forecasts are as at 14 April 2020 and assumes no additional fiscal stimulus at that point.

COVID-19 | What makes this recession so different?

Economic rebound for Māori Land Entity sectors

Implications of a lower interest rate world relative to GFC

Low interest rates – in particular, very low long term bond rates– reduce debt servicing burdens and businesses can afford to expand because the cost of their capital is low.

The table below identifies how the COVID-19 impact differs from GFC on a sectoral level.

Sectors	How the impact of COVID-19 differs from the GFC
Agriculture (Dairy, Sheep & Beef, Horticulture)	• Both international and domestic demand for New Zealand grown food during COVID-19, along with a weaker New Zealand dollar will largely provide a cushion against COVID-19. • The bounce-back of the Chinese economy will stimulate export demand and further rebound the relatively resilient sector.
Forestry	• The sector downturn during COVID-19 can be attributed to the mobility restrictions, which differs from the sector downturn experienced during the GFC. • The bounce-back of the Chinese economy will be an opportunity for New Zealand to export excess logs. However, the sector is expected to re-emerge slowly.
Commercial Property	• Commercial properties face severer disruptions as a result of COVID-19 relative to the GFC. • Alert Level Four and Three restrictions are a catalyst for business closures and property vacancies.
Fisheries	• The depth of the COVID-19 disruption will have similar demand reductions for luxury fisheries products as the GFC. • Business restrictions during Level Four and Three restrictions having the most impact.
Accommodation & Food Services (Tourism)	• COVID-19 will result in income constraints, behaviour shifts and travel restrictions resulting in a reduction of demand and business continuity. Anticipated tourism impacts will be far worse than during the GFC. • The recovery of this sector is expected to be significantly slower relative to the GFC.
Electricity, Gas, Water & Waste Services (Geothermal)	• This sector has seen a decline exceeding 2% during COVID-19 Alert Levels Four and Three, although this is expected to be a short, sharp shock • Demand will normalise during Alert Level Two.

COVID-19 | Budget Recovery Support

Fiscal stimulus to support Māori Land Entities - Budget 2020

The Rebuilding Together Budget provides strong support to address the impact of COVID-19 on the New Zealand economy. The 2020 Budget at a glance can be viewed here Budget at a glance. Based on the 2020 Budget, the Government debt to GDP ratio is set to rise from 19.3% to 54% by 2023.

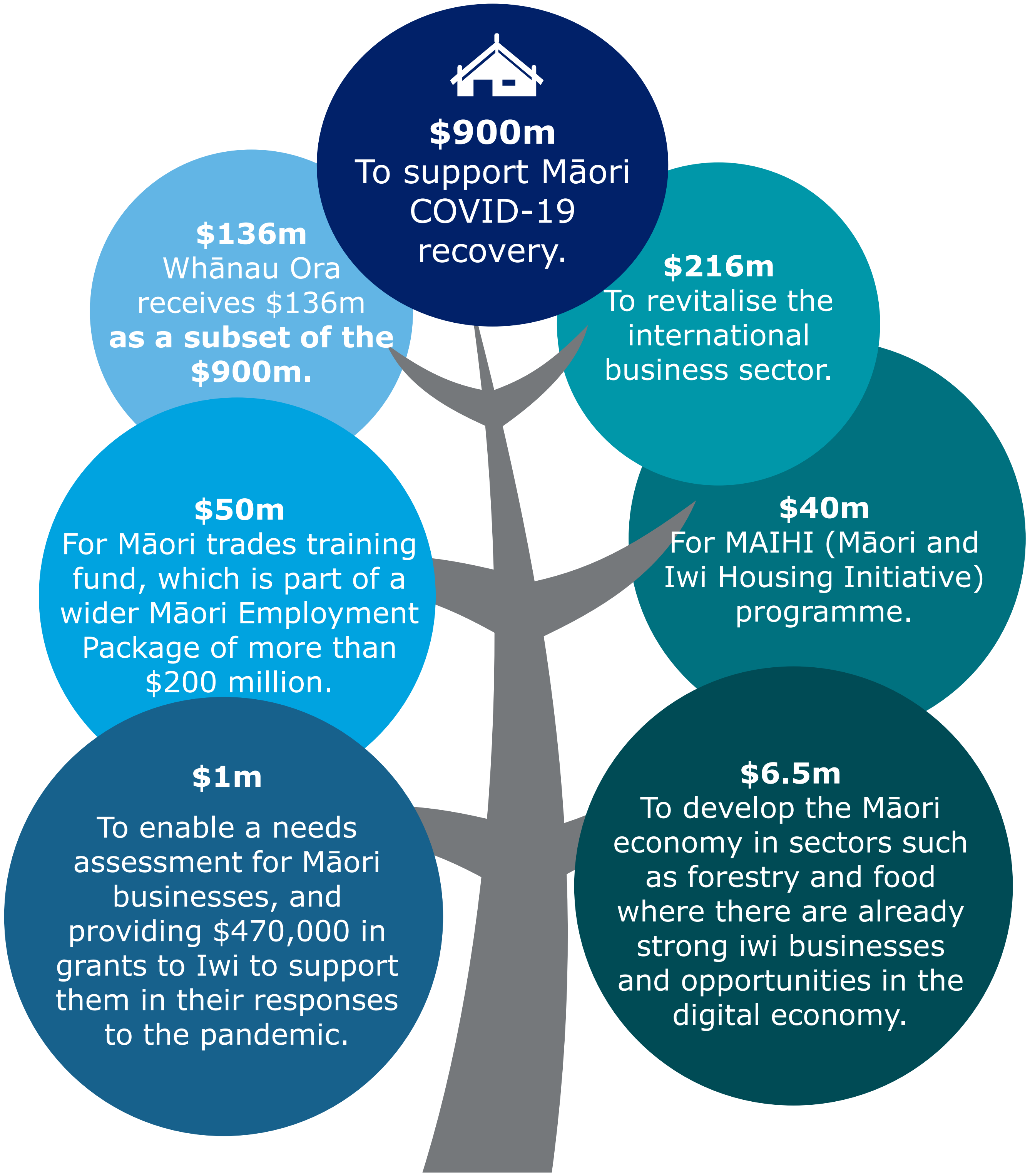
Overarching aspects in the 2020 Budget can support Māori Land Entities through:

- $32 million for NZTE support for exporters
- $2.3 million for advisory services to 600,000 small to medium enterprises
- $1.1 billion to create 11,000 environment jobs
- $150 million fund for loans to research and development intensive businesses
- $3.2 million for wage subsidy extension
- $11.4 million for Agritech
- $3 billion for infrastructure, including water infrastructure.

The total targeted spending for Māori was approximately $900 million. Of this, Whānau Ora will receive $136 million with the rest of the money divided up through arts, justice, tourism, housing and education programmes.

The diagram illustrates key targeted Budget allocations to Māori, Iwi, and Māori Land Entities.

The next page sets out the Budget allocation to sectors in which Māori Land Entities operate. There is still further detail required for some Budget allocations, such as the $400 million Tourism Recovery Fund support, which will have an impact on Māori Land Entities who are directly or indirectly exposed to the tourism sector.



COVID-19 | Budget Recovery Support

Fiscal stimulus to support sectors in which Māori Land Entities operate

New Zealand-wide Budget Allocation	Initiative	Sectors relevant to Māori Land Entities
$0.640m (for 2020/21 only)	Increasing Capability for Post-Entry Quarantine and Laboratory Services to Enable New Horticulture Markets.	• Horticulture
$11.467m (for 2020/21 only)	Rebuilding Forestry Emissions Trading Scheme (ETS) Infrastructure to Meet Demand and Support the Transition to the Low Emissions Economy.	• Forestry
$9.2m (for 2020/21 only)	Fisheries Observer Programme Collective Agreement (labour capability, retention and costs)	• Fisheries
$193.5m (for 2020/21 only)	Further Mycoplasma Bovis eradication funding and the National Animal Identification and Tracing Scheme	• Sheep & Beef • Dairy
$1.24m (for 2020/21 only)	Additional Funding for the Agriculture Production Statistics Programme	• Horticulture • Forestry • Fisheries • Sheep & Beef • Dairy
$3.12m (for 2020/21 only)	Heritage EQUIP - Continuation of Funding	• Tourism
$400m (TBC)	Targeted Tourism recovery Fund to support domestic tourism	
$6m (over 4 years)	Heritage New Zealand Pouhere Taonga Cost Pressure	
The information above relates to the initial tranche of Budget support. More assistance may be coming and more details will become available.		• All sectors

Conclusion

This report, the second in a series of three, looks at how Māori Land Entities can prepare to **Recover** from the impacts of the pandemic.

The key highlights from the report are:

- Māori Land Entities should be asking a **number of critical questions** at this time. The answers to these questions can help form your recovery strategy.
- The **Recovery** phase should see Māori Land Entities collaborate effectively across business functions, synchronise with end-to-end supply chain partners and re-balance supply and demand, with an aim to maximise enterprise performance over functional targets.
- We have moved to Alert Level Two and the 2020 Budget has just been announced, **the outlook of the impact of COVID-19 on many of the sectors has improved. However, Commercial Property, Fisheries and Tourism remain as high impact sectors** over the short term.
- A number of key **rebound economic indicators** in the report are relevant for Māori Land Entities, and can be used to monitor the economic rebound from COVID-19.
- The **Global Financial Crisis has been analysed as a comparable benchmark** – but there are five influences that mark this recession as different.
- **The rebound from COVID-19 will potentially take longer than the GFC**. A key difference in today's recession is the Government's willingness to provide fiscal stimulus support and targeted support for Māori Land Entities.

The next report, **Prepare to Thrive**, will provide insights to support Maori Land Entities as they look to the future and what is possible past the impacts of COVID-19.

Contacts

Tamarapa Lloyd

Te Arawa, Ngāti Tūwharetoa

Partner - Deloitte

+64 21 662 800

tamalloyd@deloitte.co.nz

Liza Van der Merwe

Associate Director - Deloitte

+64 21 02 911 895

elvandermerwe@deloitte.co.nz

Avi Chand

Associate Director - Deloitte

+64 21 714 446

avchand@deloitte.co.nz

Tawanda Makoni

Associate Director - Deloitte

+64 4 470 3667

tmakoni@deloitte.co.nz

Kelsey Williams

Ngāpuhi

Analyst - Deloitte

Laura Rogers

Analyst - Deloitte

Te Puni Kōkiri disclaimer

This publication is intended to provide information on the matters contained herein and includes analysing the extent of the impact of Coronavirus (COVID-19) on Maori Land Entities as at the date of the publication. It has been written, edited and published and made available to all persons and entities strictly on the basis that its authors, editors and publishers are fully excluded from any liability or responsibility by all or any of them in any way to any person or entity for anything done or omitted to be done by any person or entity in reliance, whether totally or partially, on the contents of this publication for any purposes whatsoever.

Deloitte disclaimer

This report includes analysing the extent of the impact of Coronavirus (COVID-19) on Maori Land Entities. At the time of the Services, the situation is continuing to evolve, and many uncertainties remain as to the effect the COVID-19 crisis will have on Maori Land Entities and the broader domestic and global economies.

We rely, in part, on publicly available information in relation to the effect COVID-19.

Accordingly, it is not possible for our Work to identify and quantify the impact of all COVID-19 related uncertainties and implications. Changes to market conditions could substantially affect the Maori Land Entities and our Work. Unless requested, we will not update our Work for any subsequent information or events.