HUGOvision

Assessing the economic and political environment in New Zealand

March 13 2015 | Confidential to HUGO members

Is Peters setting up Shane Jones to lead NZ First? Page 2

It seems the lure not only of politics, but also of party leadership, still attracts former Labour MP Shane Jones, who is deeply engaged in NZ First leader Winston Peters's Northland by-election campaign. Could Peters be organising his succession strategy and can Jones help deliver Labour voters to oust National in one of its safest seats?

RBNZ notably more dovish Page 3

Reserve Bank governor Graeme Wheeler is adamant there is no easing bias in the latest monetary policy statement, issued yesterday. However, the tone, forward interest track and willingness to review whether the "neutral" setting for the OCR is too high at 4.5% adds up to a subtly more dovish tone than the December MPS

1080 scare: why go public? Page 3

The government's and the dairy industry's state of readiness for handling the 1080 poisoning threats shows a maturing capacity to handle food quality crises. But given the string of dairy food scares in the last three years, it had no choice but to front-foot what some food companies might have kept under wraps.

Mr Groser goes to Washington Page 3

Hugo is reliably informed that Tim Groser, the International Trade and Climate Change Negotiations Minister, will leave Parliament mid-year to replace Mike Moore as ambassador in Washington, DC.

Iraq deployment: watch Tikrit Page 6

Visiting Chatham House analyst Dr Claire Spencer warns that if the current offensive in Tikrit turns to sectarian reprisals, the western support for the new Iraqi govt will be seriously compromised.

Non-dairy soft commodity prices softer Page 5

Dairy prices have recovered some 11% since their low point, but other soft commodities, including sheep and beefmeat and logs are all looking weaker, mainly thanks to softening Chinese demand.

Earnings strong, but share prices stronger Page 8

The corporate earnings season saw normalised earnings per share up by a median 3.5%, beating forecast, but less than the 8% annual pace over the next five years that brokerage Forsyth Barr estimate is built into stock prices.

Text finalised March 12

NZ First's succession strategy playing out in Northland?

If Winston Peters can win the safe National seat of Northland, he would be able to leave Parliament not only on the terms he'd like – from a position of influence rather than pure opposition – but also potentially with a succession strategy in place.

Former Labour leadership hopeful Shane Jones is working for Peters in the background on NZ First's by-election campaign, consistent with Jones's comment to HUGOvision in late January that he would not stand for NZ First in a by-election but would consider doing so at a general election.

While conventional Wellington wisdom may be that Jones made himself unelectable, that ignores his ability to appeal to the same populist, conservative, Maori and Pakeha vote that already votes NZ First.

It's still a big "if". The TV3 Reid Research poll that has ignited Peters's campaign covered just 500 voters had an undecided rate of 19% and the seat has been true blue National throughout recent history. Most Maori voters in the area are on the Maori electorate roll for Te Tai Tokerau, where Kelvin Davis is MP. TVNZ's Colmar Brunton poll puts National and NZ First neck and neck. If it's true that Labour and NZ First jointly commissioned UMR to poll the electorate to get similar findings, that only strengthens the sense of a Labour/Jones/NZ First rapprochement over time.

In the meantime, the strong steer to Labour voters from leader Andrew Little to supporters to be "realistic" about how to use their vote to "send a message" to the government is also a powerful fillip to Peters's ambitions

Winning an extra seat for NZ First would change the balance of power in Parliament, leaving National with 59 instead of the 60 seats it won on election night, leaving it even more dependent on United Future or the Maori Party to produce its majority, since it can continue to count on ACT's one vote.

UF leader Peter Dunne has already said National can forget significant change to the RMA if NZ First wins in Northland.

National knows that Peters is in with a chance, , with the party's campaign strategy leader, Steven Joyce, prioritising the Northland campaign ahead of ministerial duties for some weeks now. This week's bridge upgrades and the promise of more pork barreling to come had a whiff of panic.

What is the logic for a Shane Jones run in Northland in 2017? Peters turns 70 a few days after the March 28 Northland by-election. He will be 73 by the time the 2017 election rolls around. He knows he cannot last forever but was bitterly disappointed the party's 11 list seats didn't translate to influence.

With a 12th seat and the balance of power hanging on UF, Peters is better placed to wield influence until 2017. His choice then will be whether to bow out with a successor in place or to keep on battling. Without a succession strategy, NZ First will eventually be judged by history as a personality cult.

After a period in purdah, Jones may have the right mix of local connections in the north to hold the seat and to use his undoubted capacity to appeal to old-style conservative Maori and Pakeha voters who are uncomfortable with National's neo-conservatism.

Northland electorate characteristics

The Northland electorate is disproportionately skewed to older voters, compared to the national electorate. It had a slightly higher turnout at the 2014 election than the national average.

It is a traditional National Party stronghold. Mike Sabin first won the seat in 2011 with a majority of 11,362, an increase on the 10,054 majority achieved by the previously long-serving MP for Northland, John Carter, who is now mayor in the Far North.

Sabin's majority fell to 9,300 last year, but remains one of the largest in the country. Maori voters on the Northland general electorate roll are regarded as being more conservative and either uninterested or disaffected by Maori politics. That makes them prime targets for Peters, who exactly fits that description. Returns from the 2014 election show voters aged 40+ were active, while younger voters showed very low turnout rates.

A sidebar on National's choice of Mike Osborne to stand in Northland: National Party insiders had expected long-serving member of the party's national board, dairy farmer Grant McCallum, to get the nod. Instead, local party activist Osborne was chosen, in circumstances not dissimilar to the way John Carter leap-frogged sitting MP Neill Austin to take what was the Bay of Islands electorate, in 1987. Osborne may struggle under the media spotlight to keep the party's story straight about who knew what when about the circumstances that led to Sabin's resignation. It remains to be seen whether Sabin's departure will become an issue for voters, even if it captivates media coverage.

For his part, Peters is exposed by the fact NZ First has not run an electorate candidate in Northland for three elections, suggesting the party infrastructure in the region is very limited, compared with a well-oiled National Party machine.

Groser to Washington as TPP "fast track" stalls again

Trade Minister Tim Groser is strongly tipped to leave Parliament by mid-year to replace Mike Moore as ambassador in Washington DC. That will leave his somewhat unblooded under-study, Todd McClay, in the hot seat for international trade negotiations and will leave a significant hole in the Cabinet for climate change policy as well.

Groser's deep diplomatic experience has been a driving factor in NZ's disproportionate influence in the difficult global discussions leading up to the December climate change summit in Paris, not to mention the troubled attempts to strike a Trans-Pacific Partnership deal before American political focus shifts to the 2016 presidential election.

US president Barack Obama's ambition to use the Republican majority on Capitol Hill to authorise "fast-track" negotiation of the Trans-Pacific Partnership are stalled and the debate reportedly may not re-emerge before next month. That is starting to cut the timing very fine if TPP is to reach a resolution before mid-year – a timing recently nominated by Groser as essential if the trade pact is to succeed.

The prospect of failure now appears significant. Public opposition in western signatory nations is strong and amplified by similar antipathy in Europe to the Trans-Atlantic Trade and Investment Partnership. In both cases, governments backing the proposals have failed to make convicing arguments for the secrecy surrounding negotiations, believing the norms of past trade deals can be sustained despite evidence civil society now expects greater transparency.

That has allowed the use of leaked documents to set the agenda, even where the detail of those leaks tends to suggest the most aggressive attempts by US interests on, for example, copyright and patents, is making little or no headway with co-signatory nations.

Banks accept more macro-tools

Compared with the way it fought the RBNZ's loan-to-valuation ratio lending restrictions before implementation in 2013, the NZ banking sector's reaction to the imposition of further macro-prudential tools on residential property investors has been downright kittenish.

There are three main reasons for that.

Firstly, the central bank has built new rules that the banks can live with and abandoned its initial proposal to treat any investor with more five or more residential properties as a commercial borrower. This would have created substantial costs, not to mention customer aggravation, as it would have required the re-categorisation of a substantial amount of lending.

Instead, the three options now proposed will create a sub-category of residential lending that most of the banks operating in NZ should find relatively straightforward to implement.

Secondly, the banks have argued consistently that using capital adequacy ratios is a more effective way to achieve the financial stability objectives that drive the central bank's concerns about spiralling house prices, especially in Auckland, than options such as LVR's.

Thirdly, and perhaps most importantly, banks here accept that NZ had become an outlier by global banking standards for the way that it currently treats debt on residential properties that are not owner-occupied. With credit rating agencies urging more heavily capitalised bank balance sheets, NZ's current ratings were arguably unsustainable.

To prove the point, Fitch Ratings has already suggested the move could be "ratings-positive" for NZ banks.

1080 threat: why go public?

The govt was always between a rock and a hard place over whether and when to disclose the threats made four months ago to put 1080 poison in infant milk formula. Some commentators thought immediate disclosure was warranted, while others argued such threats are commonplace in the food industry and that publicity will only encourage other cranks to take similar action.

Because of the recent history of food scares involving dairy products, there was arguably no option to maintain secrecy. What appears to have worked well this time round is not only that a comprehensively reassuring testing regime was immediately put in place, but also that the govt had its story straight in case news of the threats leaked - as it did, prompting a flurry of press conferences on Tuesday.

It appears editors have mislaid protocols agreed during the Clark administration for dealing with "terrorism incidents" and were invoked in a foot and mouth threat with similarities to the 1080 threats.

Food traceability extension considered

The Dairy Traceability Working Group's report on food supply chain traceability has been released, as the latest part of the response to the 2013 whey protein contamination incident.

The government is considering applying the report's recommendations across all food sectors.

DOMESTIC ECONOMY

No interest rate cut – yet

The official forecast track for interest rates in the latest RBNZ monetary policy statement is a flat line, with 90 day rates at 3.7% through to March 2017, the end of the forecast period.

However, this MPS is unmistakably more dove-ish than the December MPS, in which the 90 day rate track ended 70 basis points higher than the latest forecasts.

Most significant is commentary describing as "an open question" whether the much lower than usual inflation track in the last three years means that annual inflation expectations have fallen from around 2% to more like 1%. If so, then the central bank would need to lower its assumption that monetary policy would be "neutral" with a 4.5% Official Cash Rate.

The most significant passage in the MPS says: "The Bank lowered its neutral nominal 90 day interest rate assumption following the GFC. However, it remains an open question whether these changes were sufficient to reflect developments in recent years, including the more recent signs that longer term inflation expectations have adjusted lower to being more consistent with the mid-point of the bank's target range."

Elsewhere, the banks says "a significant reduction in inflationary expectations would warrant more supportive monetary policy" and includes a graphed scenario showing the neutral OCR falling close to 3% over the next two years.

Driving this assessment is the much lower recent trend for non-tradables inflation – long the target of central bank criticism. The MPS openly discusses the fact that a two-thirds chance of a 25 basis point cut to the OCR before the end of this year is priced into financial markets and expects "more muted" inflationary pressure than in its December statement.

The central bank sees a remarkably robust annual growth rate of between 3% and 4% over the next two years, while inflation does not return to 2% until 2018, when a 2.4% annual rate if forecast, compared with 1.7% in 2017. Such a long period of under-shooting against the 2% target rate is justified in part by the bank's decision not to try to use monetary policy to respond to volatility in oil prices, which it expects will return to US$70 a barrel over the next couple of years. However, that strength contributes to a current account deficit that stretches out to a relatively high 5.7% of GDP over the next two years, which the bank signals as both a concern and an ongoing reason for a "substantial downward correction in the real exchange rate".

The TWI is seen moving from 79 in 2015 to 75.8 in 2018.

Annual house price inflation is forecast to peak at 8% nationally in the year to September, before falling in response to greater supply, although if net immigration remains strong, pressure on housing availability may persist.

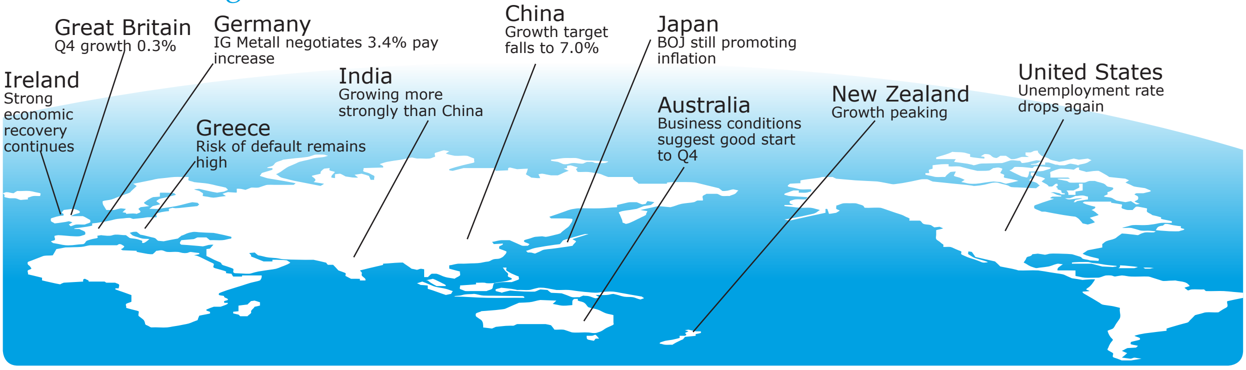
Auckland housing and rents still on a tear

National property values rose 6.4% in the year to February, an increase from the 5.7% rate of increase recorded in the year to January, in, according to Quotable Value statistics. Auckland house prices helped drive that pace, with residential property values rising an annual 13% in the February year, the largest annual gain in nine months.

Rents in south and west Auckland are rising at double the rate for the rest of the country. Weekly median rents in Manukau and Waitakere rose by 8.4% and 7.9% over the year to February, while the national median only increased by 4.3%.

The median rent tenants in Manukau are paying each week is $450 and in Waitakere $437, compared with a national median of $365, according to MBIE's Tenancy Bond Service figures.

The world at a glance



However, rents across the city – including Rodney, the North Shore, Auckland City, and Papakura – are rising more in line with the national trend, at 4.5% for the February year.

Moody's bullish on NZ growth

New Zealand's economy is expected to grow at an annual pace close to 3% percent this year as increased building activity in Auckland and Christchurch offsets declining agricultural commodity prices, according to global rating agency Moody's.

The country's economy is "growing strongly" and supports NZ's Aaa sovereign rating, although no change to that rating is in prospect. In December, Moody's said the government's delayed return to fiscal surplus didn't have any implications for the credit rating, as debt ratios were under control and surpluses were projected in later years.

It sees NZ ratio of government debt to GDP peaking below the median for similarly rated nations and is expected to decline in coming years.

"New Zealand's economy has demonstrated a track record of faster and more stable growth, which counterbalances its economic weaknesses, namely the small size, high concentration and relatively low income levels in comparison to other Aaa-rated sovereigns," Moody's said. The current account deficit remains NZ's "most important vulnerability", with consumer spending the primary driver of growth since 2010, slightly exceeding property and business investment. It judged NZ's banking sector one of the most resilient in the world.

Non-dairy commodities look weaker

Fonterra maintained its forecast payout to dairy farmers at $4.70 per kg of milksolids amid signs the slump in global dairy prices may be bottoming out, just in time for beef and sheep prices to stumble after a strong run.

Weakening demand in China and Europe, combined with the impact of a nine-month port strike on the US West Coast, are eroding previously buoyant farmgate prices for sheep and cattle.

The NZ summer drought has prompted some de-stocking earlier than usual, but the main impact has been slower global demand, according to Silver Fern Farms.

Sheepmeat prices have fallen by about a quarter from $3.80 per kg in November as demand dropped from China, reflecting increased domestic supply, while lamb prices are now forecast to drop to between $4.70 and $5.25 per kg, compared with an October forecast of $5.55/kg have also fallen. In October, Silver Fern Farms forecast $100 a lamb, or $5.55/kg, on weaker European demand.

In the US, a protracted labour dispute at 29 West Coast ports that economists believe could shave as much as 1% off US GDP, has reduced market access. The dispute caused a record price differential between imported and domestic bull beef, with domestic product fetching US$2.80 a pound while imported product sold as low as US$2 a pound.

Trading partner growth

(2013 actual; 2014-15 Consensus Forecasts; 2016-17 figures Hugo estimates)

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Australia	27.6	7.7	7.4	7.0	6.9	7.3	2.6	2.0	1.7	2.1	2.1
China	21.3	2.1	2.7	2.7	3.1	2.7	2.4	2.5	1.9	2.9	2.4
United States	10.1	2.2	2.4	3.2	2.9	2.7	1.5	1.6	0.3	2.2	1.4
Japan	6.9	1.6	0.2	1.3	1.6	1.2	0.4	2.7	0.9	1.2	1.3
Eurozone	7.2	-0.4	0.8	1.2	1.6	0.8	1.3	0.4	-0.1	1.1	0.7
United Kingdom	3.7	1.7	2.6	2.7	2.5	2.4	2.6	1.5	0.6	1.7	1.6
South Korea	4.0	3.0	3.3	3.4	3.7	3.4	1.3	1.3	1.2	2.0	1.5
Indonesia	2.3	5.8	5.0	5.3	5.7	5.5	6.4	6.4	6.2	4.8	6.0
Hong Kong	1.7	2.9	2.2	2.7	2.9	2.7	4.3	4.4	3.4	3.3	3.9
Taiwan	2.4	2.2	3.5	3.6	3.5	3.2	0.8	1.2	0.7	1.3	1.0
Singapore	2.6	3.9	2.9	3.0	3.4	3.3	2.4	1.0	0.4	1.6	1.4
Malaysia	2.3	4.7	5.8	4.8	5.0	5.1	2.1	3.1	3.2	2.9	2.8
Philippines	2.0	7.2	6.1	6.4	6.2	6.5	2.9	4.2	2.8	3.5	3.4
Thailand	1.9	2.9	0.6	3.7	4.0	2.8	2.2	1.9	0.7	2.3	1.8
Vietnam	1.5	4.7	5.6	6.4	6.7	5.9	9.5	6.6	5.6	5.8	6.9
	1.3	5.4	5.7	6.0	6.1	5.8	6.6	4.1	3.5	5.0	4.8
	1.3	2.0	2.4	2.1	2.1	2.2	1.0	1.9	0.8	2.1	1.5
NZ Trading Partners	100.0	3.9	3.9	4.1	4.2	4.0	2.3	2.2	1.5	2.3	2.1
Forecasts for New Zealand											
Consensus		2.2	3.2	3.0	2.8	2.8	1.1	1.2	1.0	2.2	1.6
BNZ Forecasts		2.2	3.2	2.8	1.8	1.6	1.1	1.2	0.5	2.0	2.0
The World		2.6	2.7	2.8	3.2	3.0	2.8	3.1	2.4	3.1	2.8

China cuts interest rates

China, New Zealand's largest trading partner, has cut its key benchmark interest rate by 25 points to 5.35%, to bolster weakening growth and ward off deflation as World Bank and IMF forecasts show a steady slowdown in annual growth from around 7.5% at present to closer to 5% by 2020.

Some 20 central banks worldwide have eased monetary policy so far this year to counter deflationary pressures, following a plunge in oil prices.

The People's Bank of China's move was the second cut to benchmark rates in a little more than three months. It also cut the benchmark saving rate by 25 basis points to 2.5 percent.

The moves come ahead of the annual meeting of the National People's Congress, where policymakers are expected to publish their growth target for this year.

Commentators are expecting the growth target to be reduced to 7%. Asia's largest economy grew at a 7.4% rate last year, its slowest pace in 24 years, missing the 7.5% target.

Fixing the Middle East – it's the economy, stupid

The spiralling political catastrophes occurring in the Middle East and parts of North Africa require responses that encourage the creation of dynamic private sectors for the new generation of tertiary educated, internationalised Arabs.

That was a key message from Dr Claire Spencer, a senior Research Fellow at Chatham House, in NZ over the last fortnight for a series of briefings.

"We need to see considerably more backing than has materialised so far for turning the economies of the Middle East into genuine, vibrant market economies," she told an Auckland University Business School lecture. "Only an active civic population, whose income and wellbeing does not entirely depend on the state will be able to hold their own political leaders to account."

The economic imperative is all the more important, Dr Spencer argued, because the traditional western ability to dictate outcomes in the region is not only waning, but understood by the forces in the region to be weak and fractured by competing interests.

That is making the politics of the region more complex. "Too many alternatives now exist for regional actors and individual states to feel the force of American diplomacy, much less the threat of the use of military force," Dr Spencer said.

Likewise, understanding in the region of western governments' difficulty persuading their own populations of unpopular Middle Eastern interventions is routinely exploited. For example: Gulf States' leverage over Europe is greatly enhanced by European economic weakness. .

Dr Spencer's visit coincided with the Iranian militia-led attack on the Sunni Iraqi town of Tikrit. Her advice is to watch the outcome in Tikrit closely. If a sectarian bloodbath follows its capture from IS, the western coalition supporting the new Iraqi govt will be sorely tested, as that support is predicated on an inclusive, non-sectarian policy.

European growth forecasts stronger

Barely six weeks after implementing its quantitative easing programme, the European Central Bank is now forecasting significantly stronger economic growth in the Eurozone than just three months ago. It now forecasts 1.5% growth this year – up from 1% at the last forecast – and growth at 1.9% in 2016 and 2.1% in 2017. Inflation this year is forecast at zero, but should be close to the target 2% annual rate in 2017, the latest forecasts say.

The ECB started its bond-buying QE programme on Monday this week, at 60 billion euros a month, but the latest forecasts suggest that may be curtailed as early as September next year.

Australian interest rates: bias to the downside

The Reserve Bank of Australia held its cash rate unchanged, having cut the benchmark to a record low last month, saying further cuts may be appropriate to stoke sustainable economic growth.

The central bank kept the cash rate at 2.25% and reiterated its view that moderate global economic growth is likely to continue in 2015, with stronger growth in the US and slowing growth in China.

"Further easing of policy may be appropriate over the period ahead, in order to foster sustainable growth in demand and inflation consistent with the target," said governor Glenn Stevens. "The board will further assess the case for such action at forthcoming meetings."

Stevens repeated that the Australian dollar remains "above most estimates of its fundamental value" especially given the decline in commodity prices, although a weaker exchange rate was likely to be needed "to achieve balanced growth in the economy."

Meanwhile, PM Tony Abbott continues to promise a softer approach, with Treasurer, Joe Hockey, expressing willingness to compromise on proposed raising of the eligibility age for the Australian state pension.

Govt Makes Sedate Progress In Parliament

Parliament completed its first three week session of the year on Feb 26, with much of the House's time taken up with the debate in reply to the Prime Minister's Statement.

The Govt's legislative agenda so far this year has been taken up with clearing the books of some old legislation, technical law changes and largely non-controversial material. This is partly due to National's numbers being reduced in the House because of Mike Sabin's resignation.

Until the by-election is decided, on March 28, National needs the support of ACT and at least one other to make progress on legislation. There is a raft of legislation which would fit this bill, but the decision has been taken to get rid of some bills which have been stagnant on the Order Paper for some time.

There has been no sense of urgency from National to get legislation through quickly with its MPs taking their full quota of speeches at each reading. This is unlike the last Parliament where backbench MPs contributions were much curtailed. The Opposition accused National of "filibustering" their own legislation, but in the last Parliament they also accused the Govt of abusing democracy when speeches were shortened.

The second session of this year began on March 10 and runs through to the Easter Break on April 2. Deputy Leader of the House Simon Bridges says the Govt is likely to give priority to the Statutes Amendment Bill (No 4), Weathertight Homes Resolution Services Amendment Bill and the Radiation Safety Bill.

The Customs and Excise Act, last modernised in 1996, is up for review, with a discussion paper released and submissions due by May 1. Proposals to allow border officials to require passwords to electronic devices sparking negative media coverage.

Proposals include broader information sharing with government agencies, improving the excise system, and clarifying Customs' powers and sanctions.

Bills Introduced

Weathertight Homes Resolution Services Amendment Bill: Introduced Feb 23 2015. Makes a number of changes to the administration of the Weathertight Homes Resolution Services, addresses issues are around eligibility and claims, also validates a number of Gazette notices.

Bills in Progress

Exclusive Economic Zone and Continental Shelf (Environmental Effects) (Transitional Provisions) Amendment Bill: Introduced on Feb 18 2015 and received its first reading on Feb 26. The bill is to ensure existing operations in the EEZ can continue until new consents are processed. Aimed at Shell Todd Oil Service's Maui gas platforms whose current license may expire before a current marine consent application is completed. The bill was referred to the Local Government and Environment Committee with an abridged report back date of June 29 by 106 to 13. The Greens opposed saying the case had not been made for the law being in the public interest and not just the interest of an oil and gas company.

Bills Passed/Defeated

Parental Leave and Employment Protection (Six Months Paid Leave) Amendment Bill: Member's bill by Sue Moroney (Labour). Doubles paid parental leave to six months. Parties seeking compromise so government will not veto it on fiscal grounds. Has the support of United Future and Maori Party, delayed in the Government Administration Committee while National looks at its own policy. First reading July 25 2012. Reported back on Feb 28 with the committee divided on political lines and unable to agree on whether the bill should proceed. Set down for second reading on Members' Day. The govt has been using delaying tactics on Members' Day to avoid debate. After the Budget delivered National's alternative watered down policy, the bill received its second reading despite much confusion over who was voting for what. National remain the only party in Parliament now opposed to this bill. Finance Minister Bill English picked to use financial veto if necessary, though time is running out for its to progress in this Parliament. Completed its second reading with just National opposed, but run out of time in its committee stage on June 25 following delaying tactics from National. MPs returned to the committee stage, but delaying tactics from National meant it did not progress to the next stage. Committee stage debated again on Nov 5 with the new composition of Parliament resulting in National and ACT voting down clauses by 61 to 60. Completed its committee stage with National and ACT combining to gut the bill, it will be killed off when Parliament resumes in 2015. Defeated On Jan 25 with a 60 to 60 vote with National and ACT opposed. Govt indicated it would introduce further PPL legislation this year to extend eligibility and allow for some contact with workplace during leave.

Energy (Fuels, Levies, and References) Amendment Bill: Introduced Nov 23 2013. Extends a levy of around 0.045 cents on each litre of liquid fuel to fund international obligations over oil reserves. Passed first reading March 5 2014 by 77 to 41 with National, Greens, Maori Party, ACT and United Future in support and sent to the Commerce Committee for consideration. The Greens argued the reserves should be held in NZ and not overseas. Submissions closed on April 17. Reported back from select committee on July 1 with minor amendments, the committee did not address the issue of whether reserves should be held onshore. Received its second reading on Dec 10 with just NZ First against as they oppose the costs of funding the reserves falling on motorists. Completed its committee stage on February 11 with an opposition amendment to exclude biofuels was defeated. Passed third reading on Feb 17 with just NZ First opposed arguing the cost should be met through general taxation. A number of MPs warned oil companies not to use the bill to hike petrol prices

Education Amendment Bill (No 2): Abolishes the Teachers Council and set up a new body the Education Council to oversee teachers. Also reforms the structure of tertiary education governance. Received its first reading on March 13, opposed by Labour and others who say it reduces representation. Submissions closed on April 30. Select committee hearings have been dominated by teachers and others opposing the bill. Reported back from select committee on July 14. Still strongly opposed by opposition parties with only minor changes made by the committee. The Government indicated it wanted to make progress on the bill ahead of the summer adjournment, but only got as far as the committee stage on December 12. Completed its third reading by 61 to 59 with National, ACT and United Future in favour.

CORPORATE ROUND-UP

Earnings season

New Zealand listed companies broadly beat estimates in the latest results season but still didn't show enough growth to justify current high multiples. Normalised earnings per share rose a median 3.5%, beating the forecast 3.3% but less than the 8% annual pace over the next five years that brokerage Forsyth Barr estimate is built into stock prices. Dividend payments rose 2.9% from a year earlier, matching. Analysts at First NZ analysts said while increased dividends reflect relatively strong company balance sheets, there was also "a strong reluctance" to disappoint investors in a market noted for its relatively attractive dividend yields.

Consumer spending

New Zealanders increased their spending on debit, credit and store cards by 1.2%, seasonally adjusted, in February. Spending on hospitality rose 2.8%, while apparel spending rose 2.7%. Spending on consumables, the largest segment in the series, was unchanged from January, and durables rose 1.3%.

Logistics IPO

Fliway Group plans to raise between $27.3m and $44.5m in the first IPO on the NZX this year. The logistics group is owned by Duncan Hawkesby, son of former broadcaster John Hawkesby, and his wife Gretchen, who is the daughter of packaging magnate Graeme Hart. The couple will retain 30% to 50% of the company after the sale. Hart provided seed capital for the pair to buy the business in 2006 and he has since been repaid, Hawkesby said. The IPO would value the company at $70-$75m. Fliway is forecast to have sales of $85mand profit of $4.5m in calendar 2015. It aims to pay out between 50% and 70% of NPAT in dividends.

Construction sector

Fulton Hogan posted a 10% decline in first-half earnings before tax to $83.4m, citing a decline in mining royalties in Australia for a drop in state and federal government infrastructure and maintenance spending. A strong NZ dollar also eroded the value of Australian earnings. The construction firm said full-year earnings would exceed 2014's $138m. The company is vying for some $2.8b of tender bids which would add to its forward work book.

Online booking practices

Air New Zealand will change its online booking system, removing the requirement for customers to 'opt out' of buying travel insurance which is otherwise automatically added to the bill. The airline has agreed not to present insurance as a 'pre-ticked' box, a practice the Commerce Commission says is misleading. It is part of a broader push by the regulator to crack down on online booking systems that add additional costs and fees to the price of a product or service.

Drone regulation

A report commissioned by Callaghan Innovation concludes there would be economic gains of up to $190m a year if approval was granted to allow unmanned aerial vehicles (UAVs), or drones, to fly beyond the operator's line of sight. Use of drones could prove a boon to farming, forestry and energy companies, among others with remote surveillance needs. The Civil Aviation Authority is hoping to get sign off for a new rule permitting the flights on a case-by-case basis, later this month.

IT equipment leasing

Spark NZ is selling its Telecom Rentals business for $106m to Australian financial services company FlexiGroup. Telecom Rentals generates about $5m in annual earnings. Spark is divesting the unit to focus on digital services. For FlexiGroup, the acquisition is part of an expansion into NZ after it last year acquired Equico, which offers leases to businesses and govt agencies.

Christchurch divestment programme

Christchurch City Council has voted to remove assets from a list of the city's strategic investments, a step toward a possible selldown or outright sale. Councillors voted to remove the Addington Arena, Lancaster Park, a stake in events management company VBase and various council-owned car parking buildings from the list. Mayor Lianne Dalziel said a final decision on selling assets hasn't yet been made after a council-commissioned report from investment bank Cameron Partners said assets sales would help meet a budget shortfall as costs to rebuild earthquake damage mount.

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