

Prepare for a change of government

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If 'the trend is your friend', then Labour's dramatic upward trajectory in opinion polls to date suggests it has further to go. Labour has broken through 40% support in the latest poll, although the average of recent polling still has National slightly ahead. As polling day looms, Labour's options are improving while National's are narrowing.

Imagining a Labour-led govt

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Immediate financial market reaction to the OneNews Colmar-Brunton poll was predictably negative, but would a Labour-led govt necessarily imply significant change for the economy? The outlook would be for looser fiscal policy, stronger consumption-led growth, potential for higher interest rates and kiwi dollar, but little change in overall domestic sentiment.

Potential for NZ First shut-out

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The increasingly strong Labour vote is squeezing the minor parties. We regard the TOP party as having blown its momentum in the last fortnight, while NZ First is no longer so clearly the only option for a Labour-led administration, as long as the Green Party survives and that detente with the Maori Party is possible.

Robertson or Parker for Finance Minister?

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A Labour-led govt would bring to Parliament as many as 20 rookie MPs, creating a challenge for party discipline, especially under an inexperienced leader. That is leading to early speculation that Grant Robertson may not take up the finance role but be deployed to bring order to the new caucus. That would suggest freshly ascendant David Parker could be Finance Minister.

MMP's strange small party arithmetic

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Parties that poll under 5% on the party vote but win an electorate seat get representation in Parliament in proportion to their party vote. The graph on page 6 is a useful ready reckoner for how many seats a sub-5%, electorate-winning party can expect to gain. The calculus is especially relevant to the Maori Party in this election.

North Korea

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A rare moment of agreement in last night's TVNZ leaders' debate was on the gravity of the developing tensions on the Korean peninsula, which are as serious a threat to East Asian security as any seen since the breakdown of the ANZUS alliance in the mid-1980s. That is proving a test for NZ's lines of communications to the U.S.

Corporate earnings season wraps up

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While the public has focused on the most interesting election in years, investors have been poring over the results of the latest earnings season. Exposure to tourism and electricity has been rewarding, while telcos have delivered mixed results and outlook and firms exposed to the construction sector have shown how difficult it can be to make money during a construction boom.

Prepare for a change of govt

Every NZ election since 1996 has been tight. MMP politics almost dictates that in a country where the political spectrum is bunched in the centre.

However, the events of the last three weeks – backed up by the latest polling (*see p8*) – mean that a change of govt must be regarded now as likely.

It is important not to extrapolate from a single poll. The average of recent public polls still puts National slight ahead of Labour at 42% to 39% support, but the tide has fallen very fast for National and there is very little time for that to change now.

The key factors are clear:

- the extent to which the electorate has tired of National after nine years is demonstrated by the fact that **a dramatic swing to Labour required no more than the election of a credibly appealing leader**. Almost nothing has changed about Labour’s stance since Jacinda Ardern became leader, but her strength as a campaigner and as a political personality has created momentum that arguably surpasses 1984, when Labour under David Lange ended the tired Muldoon administration’s run;
- NZ First is still nominally in the box seat to dictate who forms the next govt, but options for Labour that could exclude NZ First are emerging, especially as a **tight contest between the two**

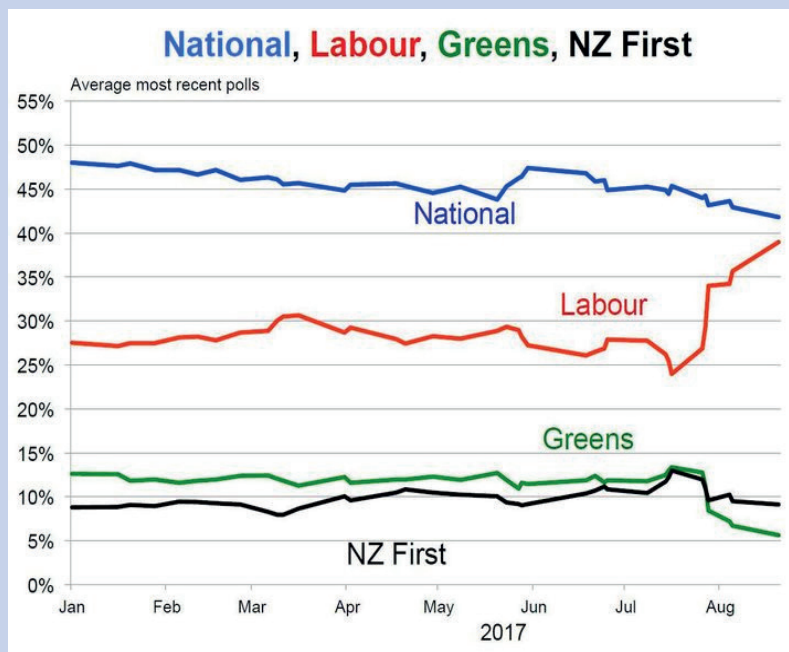
major parties is collapsing the vote for third parties. NZ First is less affected so far, but not immune, from this. It seems longer than a month ago that Winston Peters was musing on becoming PM because Andrew Little might not be returned to Parliament;

- **Labour now has more options than National.** It can expect, at current polling levels, to be able to command a parliamentary majority if it combines with NZ First, even if that majority is not as large as if NZ First sided with National. However, **Labour may also be able to form a govt with a seriously weakened Green Party and perhaps two to three Maori Party MPs.** Labour remains wary of the Maori Party, which is polling credibly to win two Maori electorates and may, with as little as 2% party vote support, bring three MPs to Parliament. That could be decisive, and **for the Maori Party, being in coalition with or supporting Labour would be a blessed relief.** Its support base wants it to work with Labour.

Meanwhile, financial markets have reacted warily to the latest poll trends. The NZ dollar fell on this week’s Colmar-Brunton Poll, and Nikko Asset Management revealed it is parking some funds across the Tasman as it weighs up the possible outcomes.

We assess in the following section how significantly a Labour-led govt might change the economic outlook.

Current polling trends



The polling data in this graphic, compiled by Colin James for the RNZ Poll of Polls, is based on all publicly available opinion polls to Aug 31:

Key points to note:

- Labour had not polled above 35% at any time during the current parliamentary term prior to its 6th leadership change since 1999;
- National had polled below 45% support only twice in this electoral term before the Labour Party leadership change to Jacinda Ardern;
- NZ First had been on a slow upward trajectory, although this has stalled post-Ardern;
- Support for the Green Party plummeted after Metiria Turei’s benefit fraud scandal prompted her resignation, assisting Labour’s rise.

How much of a change would a Labour-led govt be?

Nine years of a National-led govt means that a change carries the risk of unexpected surprises. However:

- As long as Labour is convincingly the largest party in a centre-left govt it will be **insulated from impulses among its smaller support partners** to adopt the few, more radical elements of their policy agendas. The Greens' desire to end fossil fuel exploration and development and other mineral extraction can be expected to gain as little traction as NZ First's stated desire to buy back privatised govt assets. Likewise, NZ First's antipathy to Treaty settlement and Maori economic development and co-governance arrangements would get short shrift;
- **Labour has outlined a relatively conservative fiscal stance**, operating to very similar debt parameters to the current govt's and is committed to running Budget surpluses;
- Labour remains **committed to an independent central bank**. While it would add emphasis to employment goals in the Policy Targets Agreement, it remains committed to price stability / low inflation;
- **While Labour would cancel the current govt's proposed income tax cuts, its overall fiscal stance is net stimulatory compared to National's**. The danger here is not a collapse in activity, but the strain that additional state-funded infrastructure spending may have on skills and resource-constrained parts of the economy. The **KiwiBuild** policy, to build 100,000 new affordable homes, most for sale to their occupants, will have to ramp up over time in the absence of the workforce or construction sector capacity to meet such an uplift in demand;
- On the basis that a **change to a fiscally responsible Labour-led govt gives no clear reason for business sentiment to deteriorate** beyond a concern about the competence of the new administration, consumer sentiment might be expected to improve on the basis of an outcome that reflects the popular will;
- While assuming NZ First is the source of a Labour-led govt's parliamentary majority, it should not be assumed that the party's reputation for florid rhetoric is matched either by radical policy on its books or in a track record of radical action when in govt. Particularly **if it polls below 10%, NZ First will not be in a position to wag the dog**. Its populist instincts may see further restrictions on

foreign investment at the margins and in particular in residential real estate, consistent with Labour's plans to curb foreign purchases of existing homes and to extend from two to five years the 'bright line' test for taxing gains on property sales to discourage real estate speculators. While **that would make NZ's already somewhat unfriendly regime for foreign investors more difficult, none of these are outlier policies in international terms;**

- In some key policy areas, such as the need for **fundamental reform of environmental and planning law, there is already political consensus**. That will not evaporate on election night.

The process of democratically driven political renewal rests on the assumption that its impact is ultimately net positive for societies as well as economies. For all its successes as an economic manager, National is also looking weary, complacent, defensive and with the exception of the social investment approach, short on fresh policy thinking.

In a country suffering only the mildest forms of most of the economic, social and geo-political strains evident in other developed countries, **a change of govt is more likely to be unsettling for businesses than catastrophic**, while a majority of voters might be expected to find it invigorating.

Implications for monetary conditions

Until recently, both National and Labour were committed to getting net debt down to 20% of GDP but National has lowered that medium term target to 15%. **Labour would run a higher debt track**, but still sees debt as a percentage of GDP falling to 20% in 2022, compared with National's target of 16.7% by then.

Labour's fiscal stance would require an extra \$7b of bonds to be issued, implying slightly higher bond yields and mildly greater concern for rating agencies. Investors may show less interest in NZ paper in the near term but, by global standards, **net Crown debt remains well under control and the net issuance of bonds over the next four years remains negative** (see table p5).

If anything, the greater concern is that a string of forecast Budget surpluses will allow stimulus to an economy that, in some areas, is severely capacity-constrained. However, **in the current very low inflation environment, it's not clear a higher spending govt would ignite inflation to any great or uncontrollable extent**.

Wealth taxes

The area of **greatest potential change is in the taxation of wealth**.

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Labour is trying, not entirely successfully, to avoid being snookered on the question of whether it would introduce a capital gains tax by throwing the question to tax working group before changing anything in the tax system.

It is not certain that a CGT would emerge from that process. The **focus is more on a desire to move on wealth inequality as a driver of social inequality.** While income inequality may not be worsening, the gap between the capital assets of rich and poor NZers is assumed – statistics are hard to come by – to be widening significantly.

What is known is that Labour would cancel the April 2018 tax cuts and channel funds instead to higher Working for Families payments and increased benefits for accommodation and winter energy costs.

Reforms that take income from those with a low marginal propensity to consume and redistribute revenues to those with a high marginal propensity to consume would **tend to increase household spending and raise demand while also reducing the household savings ratio.**

That would be somewhat offset, at a national level, by the resumption of contributions to the National Superannuation Fund.

Higher growth and inflation

Labour also intends **raising the minimum wage to**

\$16.50 an hour from \$15.75, with a longer term target to make it two-thirds of the average wage, and to abolish the youth minimum wage.

Its intention to introduce **a living wage for all public service workers is less fiscally significant than it may appear** as minimum wage jobs are clustered in cleaning and related services, which most govt agencies contract for from private providers. Nonetheless, this would set a public sector worker wage benchmark of no less than \$20.20 an hour. The commitment to lower the unemployment rate to 4% might also be likely to boost wage inflation.

That said, National's fiscal expansion would also be inflationary in normal circumstances. A govt of either stripe might reasonably expect NZ to continue importing offshore deflation. Combined with structural sources of deflation at home, domestic price pressures are likely to remain weak.

Slightly higher growth and inflation would nonetheless result in the central bank raising interest rates earlier than it currently forecasts, resulting in both short and long term interest rates higher than would otherwise be the case. In particular, the spread to US and Aust rates might widen. To the extent that this occurs it should provide further support for the NZ dollar. However, that influence might just as easily be offset in the initial term by downward pressure created by increased political uncertainty.

Changes to RBNZ Act and PTA

Dual employment and inflation targets, along with a change to a committee rather than 'governor alone' decision-making process would create some uncertainty for monetary policy. But it is **not possible to conclude whether monetary settings would be more or less accommodative** as a result.

The widely held assumption that a dual objective would mean easier settings may not apply if unemployment kept falling while the CPI sat below 2% p.a. In countries where there is a dual objective, one objective tends to take precedence, most commonly inflation. If financial markets see dovish implications, that would tend to flatten the short end of the yield curve but result in heightened inflation expectations, elevating the long end.

Other key Labour policies

- Tighter environmental regulation. A rewrite of the National Policy Statement on Freshwater Management, based on the recommendations of former Environment Court chief judge David Sheppard is a top priority for David Parker, who is driving Labour's environmental law reform

Rescheduled post election briefings

When we set the post-election briefing dates earlier in the year, we had anticipated a clear-cut outcome on election night. The Labour Party leadership change to Jacinda Ardern has changed that assumption fundamentally and we believe it is prudent to expect at least a brief period of negotiation to occur post-election prior to the formation of the next govt.

On that basis, we are moving the dates for the post-election briefings to:

Wellington: Wednesday 27 Sept, 7am for 7.15am start to 9am at the Wellington Club

Auckland: Thursday 28 Sept, 7am for 7.15am start to 9am at the Pullman Hotel

Our apologies for the inconvenience that this causes, but we believe we will be in a better position to brief members later in the week after the election than the currently scheduled dates. In the event that a government is not quickly formed, we will stick with these briefing dates but undertake also to hold briefing breakfasts as quickly as possible immediately after a govt is formed.

We will also, at that point, be in a position to approach members of the new govt to arrange briefings through to the end of the year.

thinking;

- Resource consents will be required for agricultural intensification. At present, landowners are able to change agricultural land use without consents;
- NZ's carbon emissions targets, as agreed in the Paris climate change accord, will be included in legislation that will establish an independent Climate Change Commission, whose task will be to establish a national carbon budget and monitor progress towards de-carbonisation. Labour is likely to take a more aggressive stance towards including agricultural emissions in the Emissions Trading Scheme sooner rather than later;
- charging a royalty on water bottled for export and a flat rate charge on water taken for commercial use, except where it is being drawn from a municipal water supply. The policy appears to hit irrigators hardest and is likely to require significant amendment to be made fit for purpose. At present, the policy envisages funds raised being recycled to the regional councils in proportion to water useage, with the intention that those funds could be applied to freshwater clean-up. That aspect of the policy is flawed because it would direct funds disproportionately to the few areas of the country with large irrigation schemes, whereas national waterways clean-ups are required in many areas where there is little or no irrigation;
- ending private prison services and a wary approach to PPPs for public infrastructure, such as the proposed new Dunedin hospital;
- tighter immigration policy though, conceivably, no tighter than what National would eventually introduce anyway;
- reduced defence capital expenditure;
- more aggressive targeting of tax avoidance by multi-nationals;
- a tourist tax of \$25 per person visiting;
- continued pursuit of free trade but with adjusted parameters, particularly foreign investment restrictions and an opposition to investor-state dispute settlement clauses.

For businesses in and exposed to NZ, a lot would depend on the relative impacts of the factors above. A heavy carbon emitter using large quantities of water, with high debt levels and a low-paid workforce would appear negatively impacted. Businesses dependent on mass consumer spending, selling tertiary education services or building low-cost housing would appear to be well-placed.

Support for commercialisation of innovation may change, especially with the reintroduction of limited

r&d tax credits, but remains a focus for Labour.

While high income earners or consumers dependent on capital gains for income may face constraints on their discretionary spending, lower income earners and beneficiaries may find themselves with more disposable income.

NZ still looking good ...

Most importantly, no matter what the outcome of the election, **any change in the political landscape is likely to be inconsequential by global comparison.** There is no Trump, or Brexit, or Macron. And, relative to Australia, NZ will still look like a paragon of political stability. Most economic debate will be about the distribution of fiscal gains rather than belt-tightening. This is light years away from the sort of issues that confront much of the rest of the world.

Would Robertson keep finance?

Speculation is already turning to the make-up of a Labour-led gov't's Cabinet, with Wellington Beltway guesswork focused particularly on the role for Grant Robertson.

One of Jacinda Ardern's closest allies – they stood on the leadership ticket that lost to Andrew Little and Annette King – Robertson has done a workmanlike

Core Crown Residual Cash				
	2017/18	2018/19	2019/20	2020/21
National	-1356	-1365	1708	1074
Labour	-4219	-2635	-268	178
Difference	-2863	-1270	-1976	-896

Bond Programme (Gross Issuance \$m)					
	2017/18	2018/19	2019/20	2020/21	Total
National	7000	7000	7000	6000	27000
Labour	9863	8270	8976	6896	34005
Difference	2863	1270	1976	896	7005

Bond Programme (Net Issuance \$m)					
	2017/18	2018/19	2019/20	2020/21	Total
National	-4500	500	-300	-5100	-9400
Labour	-1637	1770	1676	-4204	-2395
Difference	2863	1270	1976	896	7005

Core Crown Debt (% of GDP)				
	2017/18	2018/19	2019/20	2020/21
National	22.0	21.5	20.0	18.8
Labour	23.0	22.9	21.9	21.0
Difference	1.0	1.4	1.9	2.2

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job as finance spokesman. However, set-piece policy initiatives like the Future of Work project failed to provide the clear differentiation that might have helped Labour's less inspiring previous leaders.

David Parker, something of a maverick policy-maker, held the finance role under David Cunliffe's leadership. Andrew Little held him responsible for unpopular policies that helped Labour to defeat in 2014 and demoted him to graveyard portfolios.

However, Parker has been assiduous in getting himself as close to Ardern as possible since she became leader. It's not clear that she's noticed his erratic performance on the detail of the water tax policy, which is his brainchild and is polling well for Labour.

Why might Robertson step aside? The main reason offered is the **sheer size and inexperience of the Labour caucus** that polling at the most recent levels would deliver.

There are 33 Labour MPs in Parliament today. That would rise to 53 if the latest poll were replicated. Caucus discipline will be a major task for which few in the Labour caucus are better suited than Robertson.

Leaders' debates

Bill English and Jacinda Ardern appeared evenly matched in a polite first television debate on TVNZ, which arguably never flowed because of the interruptions from ad breaks and the insertion of pre-

recorded questions from the general public.

English, not always a strong performer, brought his A game despite learning just beforehand that Labour had overtaken National in the latest poll.

The next TV debate is on TV3 next Monday, Sept 4.

A final TVNZ debate will air on Wednesday, Sept 20.

Election Results under MMP voting

The 2017 election will elect the country's 52nd Parliament and be NZ's eighth elected under the MMP voting system.

The results of the previous seven elections yield some broad rules of thumb about what it takes to change the government in NZ.

Key Points to Note:

- With the exception of the first MMP election, in 1996, no party scoring less than 35% support has formed a govt;
- Parties winning at least 45% of the party vote are almost certain to be able to form a govt despite not commanding a parliamentary majority;
- NZ First's vote has been relatively volatile and its leader, Winston Peters, delights in opacity about the party's preferred electoral partner. However, on every occasion that it has been part of a government (1996, 2002, 2005), it has sided with the party with the largest party vote;

How MMP works

Adopted in 1996, the Mixed Member Proportional system of voting determines the size of parties' representation in the Parliament by their total national 'party vote', rather than numbers of territorial electorate seats won.

If a party wins less than 5% support nationally, it is denied seats in Parliament, with one exception: where the party wins a territorial electorate. In that case, the party is allocated seats in proportion to its party vote. A current example: the Maori Party won one Maori territorial electorate in the 2014 election and 1.3% of the party vote, giving it just enough support to gain two MPs.

As a result, special and postal votes rarely affect election night outcomes. The most likely exception is in the case of a party that polls very close to the 5% party vote threshold or where a party scoring less than 5% in the party vote runs close to winning an electorate seat.

The **system for allocating seats to minor parties is important** to understanding the way a Parliament may be composed, especially as no one political party has won an outright majority on the party vote since MMP's introduction 21 years ago.

Seats available to parties that win a territorial electorate but poll less than 5% of the party vote:

% of party vote	Parliament seat entitlement
0.42	1
1.26	2
2.09	3
2.92	4
3.76	5
4.59	6

Precise calculation is based on a mathematical equation known as the 'Saint-Lague' formula.

At times, this system can produce so-called 'overhang' seats, where small parties' winning one or more seats lead to an expansion of the 120-member Parliament by, usually, one or two additional MPs. **Overhang potential complicates prediction of final election results, given that every NZ election under MMP has produced a reasonably even parliamentary split** between governing parties and their supporters, and Opposition parties.

NZ's MMP system roughly mirrors the system used for German federal elections.

- The Green Party has struggled in its best years to poll better than 11%, but it has not scored below the 5% threshold since Green MPs were elected in their own right (rather than as part of the Alliance) for the first time in 1999;
- Wasted votes, where a party polls below 5% and wins no electorate seat, are common. In 2014, the Conservative Party attracted a 4% 'wasted' vote. The party has disappeared as a political force since its former leader, Colin Craig, was forced to resign over sexual harassment of his press secretary;
- Maori electorate voter turnout is typically up to 10% below national electorate turnout levels.

A short history of MMP

MMP was adopted almost by accident after National Party Prime Minister Jim Bolger promised a referendum on electoral reform during the 1993 election campaign. Rather like an early NZ version of the Brexit vote, Bolger was confident the then incumbent 'first-past-the-post' voting system would be retained.

Instead, MMP was adopted in a two-referendum process, and the 1996 election was the first held under the new process.

The politics of MMP's adoption has some parallels with the rejection of establishment politics visible in the UK, US and Europe in 2016 and 2017. From

the mid-1970s to late 1980s, NZers experienced two administrations that demonstrated the overwhelming power of the Cabinet in a single-chamber Parliament of a country with no upper House or federal structure. Small party caucuses could be easily dominated by a large Cabinet. As NZ was buffeted by economic shocks in the 1970s – the loss of Britain as a guaranteed primary export destination and global oil price shocks – there were wild swings in policy-making, exacerbated by the ease with which govts could implement new agendas.

First there was the quixotic, interventionist National Party government of strongman Prime Minister, Sir Robert Muldoon, followed by swiftly implemented and unexpectedly radical economic reforms under Prime Minister David Lange and his original Finance Minister, Sir Roger Douglas.

Another flaw in FPP voting was that it allowed a party to become the government despite winning fewer votes nationally than its primary competitor. Minor parties also struggled for representation. When a newly elected National Party government implemented a fiscal austerity package in 1991, it was something of a last straw for many voters and the momentum for electoral reform took hold.

In a small, open democracy, this too was a movement that was able to gain traction more easily than in larger countries with more complex political dynamics. ■

Party	1996	1999	2002	2005	2008	2011	2014
National	33.8¹	30.5	20.9 ²	39.1	44.9	47.3	47.0
Labour	28.2	38.7	41.2	41.1	34.0	27.5	25.0
Green	- ³	5.2	7.0	5.3	6.7	11.6	10.7
NZ First	13.4	4.3	10.4	5.7	4.1 ⁴	6.6	8.7
Alliance	10.1	7.7 ⁵	1.27	1.2	0.9	-	-
United Future	0.9	0.5	6.7 ⁶	2.7	0.9	0.6	0.2
Act	6.1	7.0	7.1 ⁷	1.5	3.7	1.1	0.7
Maori	0.2	0.25	0.25	2.1	2.4	1.4	1.3
Mana	-	-	-	-	-	1.1	1.4
Conservative	-	-	-	-	-	2.7	4.0
Turnout	88.3	84.7	76.9	80.9	79.5	74.2	77.9

Red = formed government

¹ only election won where the governing party scored under 35% – first under MMP – NZ First's best ever showing, 13 seats

² Bill English was leader for 10 months prior to election

³ Greens still part of the left-wing Alliance party

⁴ NZ First left Parliament for one term

⁵ Alliance's last election, Greens contested separately. Subsequent years, Alliance = Jim Anderton's Progressive party

⁶ United Future's best showing – 8 seats

⁷ Act's best showing – 9 seats in 1999 and 2002 – leader, Rodney Hide

Latest polling

In common with every election since 1996, the range of possible results is more complex than a proportional representation voting system might suggest.

The table below shows the outcome based on last night's TVNZ Colmar-Brunton poll, taken over a period that includes Winston Peters's superannuation overpayment mini-scandal.

Most significant is the fact that **Labour could, theoretically, govern without NZ First, on this result**, assuming it can reach an accommodation with the Maori Party.

What the table doesn't show is **the permutations that could occur with very small changes in the 'wasted' vote and in a situation where the Maori Party wins two electorates or scores above 2% in the party vote.**

Key to understanding the ongoing uncertainty are the following factors:

- the potential for a wasted vote on the Green and TOP parties to reduce the vote required for a major party to cobble together a Parliamentary majority;
- the significance of just 2 or 3 percentage points of voter support changing among the four main parties – National, Labour, NZ First, and the Greens;
- over-reliance on a single poll. **Labour's pollster UMR does not have Labour ahead and National's pollster Curia has Labour still at around 38% to National's 44%.** The Colmar-Brunton poll could be a rogue result – but this close to an election, any public opinion poll will have influence out of all proportion to what private polls are saying.

The latest Colmar-Brunton poll shows **Labour**

	Party vote %	Seats
National	41	50
Act	0	1
Maori	1	1
Labour	43	53
Green	5	6
Lab-Green		59
NZ First	8	10
TOP	1	0
TOTAL SEATS		121
For majority		61
Lab/Gr/NZF		69
Lab/NZF		63
Nat/NZF		61

now has more options to form govt than National, although it does still require the Green Party to be in the mix. If the Greens were to fall below 5%, Labour would have little choice but to partner with NZ First.

On the other hand, if the Maori Party were to win two electorates – a credible possibility in Wairariki and Te Hauauru – Labour could squeak in with a one seat majority and not need NZ First's support.

The calculation then for Labour would be which is more unstable: a govt with a one seat majority or a govt with a clearer majority supported by the mercurial NZ First party.

In either scenario, Labour would have to work with a difficult partner - its long-time enemy, the Maori Party, or the devil it knows to distrust: NZ First under Winston Peters.

It is fair to assume the Maori Party would happily seek to work with Labour as that's what its membership fervently wishes. Equally, it is fair to assume that if Peters could be persuaded to move on as leader – diplomatic posts are mentioned – a more stable relationship might emerge between Labour and NZ First.

For National, the calculus is simpler. It can't govern without NZ First at current support levels because the Greens will not be its partner.

Its best hope is that both TOP and the Greens fall below the 5% threshold and the Maori Party polls just over 2% to take 3 seats. This could deliver National, NZ First and the Maori Party in combination a 2 seat majority.

Pensiongate – who really wins?

The leaking of Winston Peters's failure to claim his state pension correctly is a **classic 'post-truth' event**, in the sense that the identity of the leaker is far less important than the subsequent impact of the leak on the election campaign narrative.

Mainstream and social media reports have stoked a belief that the Beehive was in some way complicit in a fairly unremarkable errors becoming public. Denials by National and evidence that **the issue could help drive NZ First into Labour's arms** are pointless.

Peters has made only one reported comment on whether the incident affects his ability to work with National post-election. Surprisingly, he was willing to entertain the possibility – a change from his usual refusal to discuss the matter at all.

"You have sometimes a poison chalice," he told RNZ, and referred to his choice to side with National in 1996, a decision that took him eight weeks after the

first MMP election. “What you’re saying is ... that in the interests of the nation and its economic and social survival that one should put his personal views above the serious decision one’s got to make, and above that of his caucus and how they see it ... and I’m not going to do that.”

‘No surprises’ policy must change

The Peters episode also spells trouble for senior public servants whose judgement it was that the issue of Peters’s personal failing should be communicated to Ministers.

In this instance, it appears simply to have ensured that far too many people, rather than the necessary people, became aware of the mini-scandal.

More broadly, the incident underscores the growing concern that ‘no surprises’ is being too easily interpreted in the bureaucracy as a licence to warn Ministers of facts that may be politically useful.

In this case, in particular, there is no clear reason why the personal details of one superannuitant would be shared so widely, if at all.

North Korea

The North Korean crisis is the first major East Asian security threat since NZ left ANZUS in 1985 and it finds Wellington communicating with the US via intermediaries. Aust and Japan are the US’s two key allies in the region and Bill English has been talking to Malcolm Turnbull while MFAT has been talking to Tokyo. Direct communication in Washington is at the Assistant Secretary of State level. Unsurprisingly, the NZ position opposes any pre-emptive strike on North Korea which could destabilise the Chinese economy. The greatest fear is a missile test going wrong and provoking an immediate military response from either Japan or South Korea.

The crisis is being taken very seriously. Gerry Brownlee was apparently surprised by the bellicosity of the rhetoric of the North Korean Foreign Minister during a private session at the recent ASEAN meeting, and intelligence sources in Wellington say they do not subscribe to the theory that North Korea is struggling to keep up with technology to make their rockets work. There is a belief that the situation has placed the region nearer to nuclear conflict than at any time since World War Two.

ComCom moves on regulated industries’ competitive offshoots

The Commerce Commission is to monitor the unregulated activities of regulated monopolies in a

move that appears to respond directly to concerns among electricity generator-retailers that network owners could cross-subsidise activities where they might directly compete.

The Electricity Networks Assn responded to the announcement by suggesting this should put an end to the calls for regulatory ‘ring-fencing’ of subsidiary businesses owned by regulated monopolies.

Shifting Auckland’s port

NZ First’s proposal to shift the Auckland port to Whangarei has captured the imagination of opponents of the port’s current location.

However, the major political parties have been lukewarm on an initiative that would effectively add hundreds of kilometres of additional land transport to deliver goods into Auckland.

Imports intended for consumption in the country’s largest city and surrounding areas dominate the Auckland Port’s trade. The Northport shift could be expected to add considerable cost and time to the delivery of goods to Auckland.


While the current govt is promising dual carriageway highways between Auckland and Whangarei over the next decade or so, the capital expenditure required of KiwiRail both to upgrade the connection to Whangarei and to build a spur line out to the port appear problematic.

KiwiRail is heavily committed to developing the ‘Golden Triangle’ services between Auckland, Hamilton and Tauranga. While Labour is more rail-friendly than National, the cautious reaction from Jacinda Ardern to the Peters proposal suggests Labour is instinctively wary of the impact of such an upgrade on KiwiRail’s viability and the call such a project would make on capital intended for other priorities.

Meanwhile, Ports of Auckland has said it will build an architecturally ‘iconic’ new storage facility on the Auckland wharves to house the imported cars that are the focus for opponents of the port’s current CBD location.

Seabed mining appeals lodged

Lobby groups opposing TransTasman Resources’ plans to mine ironsands in the EEZ off the west coast of the North Island have lodged appeals against the consents issued by a decision-making committee appointed by the Environmental Protection Authority.

The appeals ensure the issue will remain live for a new govt. Labour has expressed no view, but the Greens want the area to become a marine sanctuary. 

DOMESTIC ECONOMY

Primary sector and food production

Fonterra says its NZ milk collection in the first two months of the season is up 10.4% to 29m kilograms of milk solids although it has eased as incentives to boost winter production finish. Australian milk collection rose about 28% to 8.3m kg/MS.

Economic indicators

Business confidence weakened in August, as measured by the ANZ Business Outlook, although the indicator would be consistent with GDP growth of 4%-plus, assuming capacity constraints could be managed. A net 18.3% of firms expect general business conditions to improve over the coming year, down from 19.4% in July. A net 38.2% of firms anticipate better times ahead for their own business, down from 40.3% in July, against a long run average 28%. Investment plans were virtually unchanged, but hiring intentions fell from a net 25.7% of firms saying in July they expected to hire in the coming year to a net 17.1% in Aug.

NZ recorded its first **trade surplus** for a July month in five years as exports of milk powder, butter and cheese soared 51%. The surplus was \$85m in July, which was only the 11th July surplus since 1960. It compares with a deficit of \$351m in July last year, which included a large aircraft import.

Local government

Auckland Council recorded a full-year operating

surplus before gains and losses of \$340m from \$250m a year earlier while revenue from ordinary activities climbed 11 % to \$4.1b. Debt rose 6.5% to \$7.97b as the city invested in transport and water infrastructure, while net assets climbed 6.3% to \$35.8b.

Courts and regulation

The **FMA** reached a \$4.5m settlement with Prince and Partners Trustee Co after the company admitted a series of failings in its role as trustee of failed lender **Viaduct Capital**. The **Commerce Commission** has filed civil proceedings against **Harmony Corp**, claiming the peer-to-peer lender's platform fees are unreasonable. The commission says Harmony breached the Credit Contracts and Consumer Finance Act 2003. **PwC** reached a confidential settlement with the liquidators of David Henderson's failed property development firm **Property Ventures**, ending its part in a lawsuit that was seeking \$302m in damages from the accounting firm and company directors. The suit will continue against directors.

Suncorp Group's **Vero Insurance** unit is to appeal the Commerce Commission's rejection of its \$236m takeover bid for **Tower**, and has the backing of the NZX-listed general insurer's board. Tower chairman Michael Stiassny said the appeal has the "full support" of Tower's board, and that the NZX-listed company plans to file its own cross-appeal in the coming weeks. ■

Trading partner growth

(2015-16 actual; 2017 Consensus Forecasts; 2018-19 figures Hugo estimates)

Trading partners	Weights %	GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
		2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
China	23.7	6.9	6.7	6.6	6.3	5.8	1.4	2.0	1.8	2.1	2.4
Australia	20.8	2.4	2.5	2.1	2.8	2.6	1.5	1.3	2.2	2.3	2.4
United States	13.4	2.6	1.6	2.2	2.3	2.1	0.1	1.3	2.1	2.1	2.3
Japan	7.5	1.2	1.0	1.4	1.1	0.9	0.8	-0.1	0.5	0.8	1.2
Eurozone	7.3	1.9	1.7	1.9	1.7	1.4	0.0	0.2	1.5	1.4	1.7
South Korea	3.8	2.8	2.8	2.8	2.6	2.3	0.7	1.0	1.9	1.8	2.1
United Kingdom	3.7	2.2	1.8	1.6	1.4	1.5	0.0	0.7	2.7	2.7	2.3
Singapore	2.8	1.9	2.0	2.5	2.3	2.3	-0.5	-0.5	0.9	1.3	2.0
Taiwan	2.7	0.7	1.5	2.2	2.0	1.7	-0.3	1.4	1.0	1.4	1.2
Indonesia	2.2	4.9	5.0	5.2	5.4	5.1	6.4	3.5	4.2	4.1	4.6
Thailand	2.1	2.9	3.2	3.4	3.4	2.9	-0.9	0.2	0.8	1.6	1.8
Hong Kong	2.0	2.4	2.0	2.7	2.3	2.3	3.0	2.4	1.8	2.3	2.3
Malaysia	2.0	5.0	4.2	5.0	4.7	4.3	2.1	2.1	3.8	2.5	2.5
Philippines	1.6	6.1	6.9	6.4	6.4	5.9	1.4	1.8	3.2	3.3	3.1
India	1.6	7.9	7.1	7.3	7.6	7.4	4.9	4.5	3.8	4.6	5.1
Canada	1.5	0.9	1.5	2.7	1.9	1.9	1.1	1.4	1.7	1.9	1.9
Vietnam	1.3	6.7	6.2	6.3	6.3	6.3	0.9	2.7	3.8	4.5	4.5
NZ Trading Partners	100	3.6	3.4	3.5	3.5	3.2	1.1	1.3	1.9	2.1	2.3
Forecasts for New Zealand											
Consensus		2.5	3.1	2.6	3.1	2.8	0.3	0.6	1.9	1.8	2.0
BNZ Forecasts		2.5	3.1	2.5	3.0	2.6	0.3	0.6	1.7	1.6	1.9
The World		3.0	2.5	3.0	3.0	2.7	1.9	2.5	3.0	2.8	3.1

Corporate earnings season

Chorus lifted annual profit 24% to \$113m after cutting costs and changing the way it capitalises some labour costs, making up for a decline in connection numbers that's been driven by the network operator's biggest customer, **Spark**.

Genesis Energy's full-year ebitdaf fell 1% to \$335m reflecting both positive and negative effects from swiftly changing South Island hydro-generation conditions in the last half of the year. Revenue fell 3% to \$1.9b, while operating expenses rose 3.4% to \$1.6b. **Mercury Energy** ran its North Island hydro generation hard while southern competitors suffered a dry winter, helping boost the Auckland-based electricity generator and retailer's ebitdaf in the year to June 30 by 2.3% to \$493m. It's declared a special dividend, reflecting its limited capital needs. **Meridian Energy** reported full-year profit of \$197m, up from \$185m reflecting a strong first-half performance offset by dry conditions in the South Island that limited its ability to generate electricity from its southern hydro dams. Revenue fell to \$2.3b from \$2.38b, while expenses fell to \$1.67b from \$1.7b. Ebitdaf rose 5% to \$653m.

Vector posted a 0.3% increase in annual ebitda to \$474m and said next year's result will be largely the same as the electricity, gas and telecommunications utility continues to branch out from its regulated network business. Revenue rose 7.2% to \$1.23b. It will pay a final dividend of 8c, taking the annual return to 16c, up from 15.75c a year earlier.

NZ Refining more than tripled first-half profit to \$35m as above-average margins bolstered earnings for the operator of the Marsden Point oil refinery. Revenue rose 22% to \$190.6m, with a gross refinery margin of US\$7.70 a barrel, up from US\$5.25/barrel a year earlier and ahead of the historical average margin of US\$4-to-US\$6/barrel. **NZ Oil & Gas** posted a full-year profit of \$61.2m from a year-earlier loss of \$35.8m after taking a \$95m gain on the sale of

its stake in the Kupe oil and gas fields and trimming operating and exploration costs.

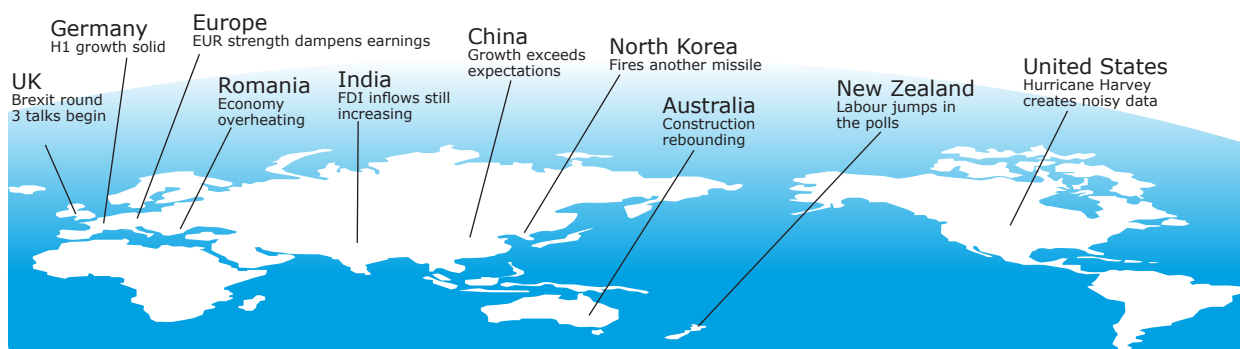
Ebos Group posted a 4.9% gain in full-year profit to \$133m and lifted its final dividend as acquisitions and sales of products such as hepatitis C medicines drove revenue growth. Sales for the pharmaceutical and animal health products distributor climbed to \$7.6b from \$7.1b.

Air NZ's full-year profit fell to \$382m from \$463m as the impact of an increasingly competitive market offset the benefits of lower jet fuel prices and the country's ongoing tourism boom. Operating revenue slipped to \$5.1b from \$5.23b. **KiwiRail's** full-year NPAT loss widened to \$197m from \$194m, reflecting a \$296m impairment on its rail assets. The state-owned railroad's operating surplus dropped by almost a third to \$52m because of the impact of the Kaikoura earthquake in Nov. Operating revenue fell 14% to \$595m and operating expenses rose 12% to \$542.5m. **Port of Tauranga** posted a 7.9% gain in annual profit to \$83.4m, at the top of its guidance, as total trade rose 10% to a record 22.2m tonnes. It will pay a special dividend of 5c a share, the second payment under a plan to return up to \$140m to shareholders over four years. **South Port** posted a 3% decline in annual profit to \$8.4m. Revenue rose 0.4% to \$36.9m, helped by record container volume of 39,300 TEUs. **Marsden Maritime Holdings**, which owns half of **Northport**, reported a 17% drop in annual profit to \$10m as it reaped smaller gains on the value of its investment properties and marina operations.

Tourism Holdings exceeded guidance with a 24% gain in full-year profit to \$30.2m and said it aims to boost earnings to \$50m by 2020. Revenue rose to \$340.8m from \$278.9m.

Methven said annual profit fell by about 25% to \$5.8m in a "very disappointing year" but expects 2018 to deliver 10% profit growth as the shower and tapware designer starts a new business plan. Sales

The world at a glance



CORPORATE ROUND-UP

fell 5.4% to \$100m.

Trade Me annual profit rose 26% to \$94.4m, which it said reflected investment in staff, product development, marketing and sales. However, it warned earnings growth will slow in the coming year as it ramps up investment. Revenue increased 7.7% to \$234.9m.

Scales Corp first-half profit fell 14% to \$29m after its apple orchards were hit by heavy rain and winds. Revenue rose 3% to \$216.7m while ebitda dropped 11% to \$48.4m.

Seeka lifted first-half profit 56% to \$11.1m as the biggest kiwifruit grower in Australasia widened its margins across the Tasman. It expects a smaller crop will see a decline in annual earnings. Revenue was little changed at \$134m.

Fliway Group's annual profit came in at the top end of guidance, falling 31% to \$3.9m after the company restructured in response to a major customer loss and mounting freight costs from last year's Kaikoura earthquake. Revenue rose 3.4% to \$85.4m.

Metlifecare reported a 10% increase in full-year profit to \$251.5m on the back of resale gains and wider development margins and said it isn't yet seeing any impact from a slowdown in the housing market.

Comvita blamed poor weather and reduced demand from small exporters to China weighing on its annual result, with profit falling to \$9.8m from \$18.5m in the year-earlier 15-month period. **A2 Milk** tripled its annual profit to \$90.6m and said it would use some of its accumulated cash to buy back shares and may pay a special dividend. Revenue rose 56% to \$549.5m. **Delegat Group** reported a 6% gain in operating profit to a record \$38.5m and said it expects to achieve at least as much in the 2018 year. Sales rose 3% to \$247.7m as the volume of sales increased 10% and the value fell 7%. **NZ King Salmon** beat its forecast with annual profit of \$22.8m, up from \$2.6m a year earlier, and reiterated guidance for FY18 proforma operating ebitda of \$22.4m.

NZME first-half trading earnings rose 1% to \$9.9m as audience numbers ticked up but the media company warned that headwinds remain and said completing the merger with Fairfax Media remains a priority. Trading revenue fell 3% to \$189m. **Sky TV** posted

a 21% decline in annual profit to \$116m as revenue dropped 3.7% to \$893.5m and operating expenses slipped 0.3% to \$601m. Some \$2.1m of expenses related to the proposed merger with Vodafone, compared with \$13.4m of costs a year earlier. Costs to secure programming rights increased 5.6% to \$349m. **Vista Group** first-half profit rose 34% to \$3.6m as recurring revenue rose and the cinema software firm continued with its international expansion. Revenue rose 23% to \$50m.

Cavalier Corp posted a full-year loss of \$2.1m from a year-earlier profit of \$3.1m after the overhaul of the wool carpet maker's operations proved more expensive and more prolonged than expected. The results included \$6.3m of restructuring costs. Revenue dropped 18% to \$156m. **Mercer Group** posted a wider full-year loss of \$7m from a loss of \$6.5m in 2016 as the cost of restructuring and foregone tax assets weighed on the bottom line. **Airwork Holdings** lifted annual profit 0.7% to \$24.8m, in line with its guidance.

Construction and infrastructure

Downer EDI spent A\$55.4m buying Hawkins, which was in need of capital at the time of the purchase. At the time of acquisition, Hawkins had a negative net asset value of A\$16.3m.

Retiring Meridian Energy ceo Mark Binns has definitively ruled himself out of interest in either taking over the leadership of **Fletcher Building** or of becoming a director of the construction company.

Corporate Actions

Flight Centre Travel Group bought two NZ travel firms for a combined A\$19.5m, making it one of the country's biggest travel management groups. The ASX-listed company acquired Travel Managers Group for an initial A\$8.37m and Executive Travel Group for A\$11.17m. **Powerhouse Ventures** managing director Stephen Hampson resigned for immediate replacement by CFO Paul Viney. **Veritas Investments** has to find \$28.5m in the next year or so after ANZ Bank said it won't renew its banking facilities as they come due. The board is working through a number of options, including selling or merging its various units with external parties, recapitalising, or refinancing with a new lender. ■