

Economic Note

2017 NZ General Election Provisional Results

25 September 2017

The Hunger Games

Summary

The provisional election results mean it is possible for either National or Labour to form a governing coalition. The incumbent National Party is only a few seats short of an outright majority. At first blush it is in the box seat, and its coalition options are simpler. But there is no set rule about who gets to form a government. The only [rule](#) is that the first bloc to publicly state it has the numbers to govern gets to put their claim to the Governor General to ascertain they can indeed command “the confidence of the House”.

The NZ First party is the main power player. It has indicated a preference for initially talking to the party with the most seats. Ultimately, government formation will come down to which option will give NZ First the most influence. Negotiations are likely to take time and may not start in earnest until October 7, when the special votes (15% of the total) are counted and the final seat allocation is known. NZ First leader Winston Peters has said he would make a decision by October 12, though there is no formal time requirement.

The provisional results: split decision

The National Party (58 seats) and Labour Party (45) seat numbers were very much in line with what was implied by the simple average of the last 2 major opinion polls (57 seats vs. 46). The NZ First and Green parties both exceeded the 5% party vote threshold to remain in parliament. The ACT party retained its Epsom electorate seat but its party vote remains too low to bring in any further MPs. The Maori Party lost its sole electorate seat and, with its party vote below 5%, it has failed to make it back into parliament. One of the significant outcomes of this election is that 2 of National’s past 3 coalition partners (Maori Party and United Future) are no longer represented in parliament. If either had been returned, National might have retained its current coalition arrangement.

Special votes and overseas votes have yet to be counted, and the final seat allocation will not be set until October 7. After the 2014 election the final vote count saw National’s party vote share fall around 1%, while Labour and the Green Party gained – with the Green Party picking up an extra seat. There is the potential for 1-2 seats to shift from National to Labour or the Greens in the final figures.

The significance of any such shift is that it would lift a potential Labour/NZ First/Green coalition above the bare minimum majority it currently has (which leaves no buffer for what-ifs). That could make the difference between a Labour-led government that risks not surviving a full term or one that has legs to survive.

Results	Party %	seats
National	46.0	58
Labour	35.8	45
NZ First	7.5	9
Greens	5.9	7
MP	1.1	0
ACT	0.5	1
		120
Majority required:		61
Potential coalitions		
Nat/NZF		67
Nat/NZF/ACT		68
Nat/Greens		65
L/NZF/Greens		61

Coalition possibilities

The table (Page 1) shows all the coalition options that are theoretically possible, based off the provisional results.

National is unlikely to get support from the Green Party, even though that option potentially gives a larger majority than a Labour-led coalition. Beyond environmental policies, the Green Party is essentially to the political left of Labour and had a Memorandum of Understanding with Labour. A coalition with National would seem to be hard to reconcile with the Green support base. Nevertheless, there would be plenty of scope for co-operation on environmental issues – which received a lot of pre-election focus – and it would give the Green Party a second path to entering government for the first time. But the National leader has said he won't reach out unless there is some indication of interest from the Green Party, and the Green Party leader has no intention of making contact.

This leaves NZ First leader Winston Peters with all the bargaining power. A coalition with National is mathematically and pragmatically simple: it requires just 2 parties and would represent the biggest bloc of seats even if there is a reallocation when the final vote count is completed. A coalition with Labour and the Greens would require more management, but NZ First would still have heavy leverage. Numerically it would be more fragile, but the numbers could improve once all the votes are counted. Alternatively, the Greens may (very reluctantly) remain out of a formal coalition and remain on the crossbenches, enabling a minority Labour/NZ First coalition to govern in return for some concessions.

It is possible negotiations go on up until October 12, and that the serious talks don't start until the October 7 final vote count. And, based on past experience, expect Winston Peters to drive a hard bargain.

May all your negotiations be ever in your favour...

One aspect of the negotiations will be ministerial roles for NZ First MPs – how many, and what. Most important will be what role NZ First leader Winston Peters will take. The other key aspect will be the policy negotiations to see which of the major parties will give NZ First the most concessions.

Below are some likely areas of commonality, negotiation and friction with the 2 main coalition scenarios with NZ First. No doubt many other issues will be negotiated in addition to our short lists. We have put aside a National/Green coalition, though would expect that such an arrangement would put emphasis on environmental and housing policies.

National/NZ First

Some key issues for discussion will likely include:

- A likely delay or cancelling of National's policy of raising the Superannuation eligibility age from 65 to 67;
- Potential tightening up of residency requirements for receiving Superannuation;
- Some further tightening of immigration policy;
- Focus on foreign ownership of residential property;
- An added focus on regional development and primary industries;
- Some discussion over moving the Port of Auckland operation to Northland;
- Tougher law enforcement – NZ First wants more police and National wants to crack down on gangs;
- The monetary policy framework – although NZ First wants changes, they are not one of the party's 'bottom lines' for forming a coalition;
- Manned re-entry to the Pike River coal mine to retrieve the bodies of those who died in the 2010 disaster.

Labour/NZ First/Greens

Key issues for discussion will likely include:

- As with National there will be a focus on: immigration, foreign ownership of residential property, Pike River mine re-entry, shifting Port of Auckland operation;
- Taking a more cautious approach to free trade negotiations, including on the issue of foreign ownership restrictions on residential property and renegotiating the Trans Pacific Partnership;
- Changes to the monetary policy framework, which both parties advocate. NZ First's policy is more radical sounding with its Singapore-style focus on managing the exchange rate. However, Labour wants to add an employment target while continuing with the existing inflation targeting approach;

- Water royalties on commercial water usage outside council supply – NZ First is against Labour’s proposal to levy farmers but in sync over levying water bottlers;
- Tax – Labour will want to go ahead with its Tax Working Group and legislate for any tax changes ahead of the 2020 election. However, NZ First has expressed some opposition to a capital gains tax, which is likely to complicate final policy proposals.
- Industrial Relations – NZ First may want to water down some of Labour’s proposals, such as Fair Pay Agreements – industry-wide setting of pay and employment conditions through agreements between unions and businesses. Like Labour, NZ First supports boosting the minimum wage relatively sharply.

Financial market reaction

The immediate reaction on Monday morning was for the NZD to oscillate in a tight range, but it is currently largely unchanged from last Saturday’s offshore close of USD0.733. Interest rates haven’t moved. During the period of coalition negotiations markets could experience modest volatility as markets try to keep track of which way NZ First will lean. In the short term, different coalitions would likely have some subtle differences:

- **Under a National/NZ First government**, we would expect negligible lasting election impact on the assumption that the economic direction of the coalition will not materially shift.
- **Under a Labour/NZ First government**, there would be some potential for both the NZD and short-term interest rates to soften slightly in the short term on any uncertainty over the economy’s near-term direction and on potential/actual changes to the monetary policy framework. A change in government means fresher faces and less immediate familiarity with policies. The size of the majority may also matter.

Longer term, ultimately it is the local and global economic environments that will dominate. The fiscal differences are only subtle in the scheme of things. In all probability, any government is likely to run looser fiscal policy than the pre-election status quo. Fiscal policy would likely be relatively looser under a Labour-led coalition. Labour’s Budget Responsibility Rules suggest net government debt in the 2020/21 fiscal year would be \$11 billion higher than Treasury’s pre-election debt forecast. That said, Labour’s plans show net core Crown debt still falls from 22.5% of GDP in 2016/17 to 21.0% of GDP in 2020/21 – a positive trend. For perspective, the median lift in 10-year bond yields right after Labour victories has been a modest 15bp – that can be the move of a single eventful day in financial markets.

Electoral system background

NZ has used the Mixed Member Proportional (MMP) voting system since 1996. Every eligible voter gets 2 votes: one for their electorate Member of Parliament (MP) and one for the party they want to support. The party vote determines how many MPs each party gets, so is the most important vote for determining the formation of a government. The normal number of MPs is 120, but overhangs from the MMP system can result in parliaments with more than 120 MPs (the outgoing parliament had 121).

More details on the electoral system are available [here](#).

Political parties

The 5 political parties in parliament are:

- [National](#) – centre right
- [Labour](#) – centre left
- [NZ First](#) – populist/conservative
- [Green Party](#) – left/environmental
- [ACT](#) – right

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