

Steady on

Westpac McDermott Miller Regional Economic Confidence, March Quarter 2017

28 March 2017

- Regional economic confidence declined in most parts of New Zealand in the March quarter. But following strong gains in December, regional confidence remains above average in all regions except Auckland.
- Southland has taken the mantle of the most optimistic region in the country, bolstered by the improved outlook for dairy sector incomes. Meanwhile, Aucklanders are the least optimistic about their region's economic prospects.
- Consumer confidence (a measure of households' views of their own economic conditions) also declined in most regions in the quarter. Auckland bucked the trend, with households more upbeat about their own economic prospects than those of the region.

After strong gains in the December quarter, regional economic confidence pulled back across most parts of New Zealand in the March quarter. Again, Canterbury and Wellington moved against the tide, with confidence recovering after tumbling in December. With December's survey in the field only a few weeks after the 7.8 magnitude earthquake that struck near Kaikoura in North Canterbury, we had suspected that December's soft readings in Canterbury and Wellington were related to earthquake-induced disruption and uncertainty. This appears to have been the case, with regional confidence bouncing back this quarter as it's become clearer that the negative earthquake-related impacts are isolated to specific areas and businesses rather than a drag on the regions' broader economic prospects.

Despite the widespread declines in confidence this quarter, the underlying picture remains positive, with regional economic confidence remaining at healthy levels in most parts of the country. Residents in most regions are more confident in their region's prospects than they were six months ago and much more so than a year ago. To us, confidence looks to have run a bit ahead of itself in December, and the decline this quarter brings confidence back closer to economic fundamentals.

When we look at the broader economic backdrop, the improvement in regional confidence over the past year isn't surprising. At a national level, growth picked up to 3.1% in 2016, generating jobs and encouraging more people into the labour force. And importantly for regional prospects, the drivers of growth have become increasingly broad-based. After two lousy seasons, better dairy incomes are now hitting farmers' pockets (although debt overhang and recent jitters in global dairy prices will keep farmers cautious about discretionary spending), and conditions for other commodity producers, including beef and horticulture, have remained positive. Most regions are also benefitting from rising tourist numbers, a pick-up in population growth, and increasing house prices. That said, the pace of house price growth has slowed in some regions in recent months, with prices flattening off in the case of Auckland and Christchurch.

Southland topped the leaderboard this quarter, for the first time since 2012. With one of the country's highest exposures to dairy, the improved outlook for dairy incomes

Regional economic confidence*

Region	Net Confidence (%)		
	Mar-17	Dec-16	Change
Northland	14.0	16.8	-2.8
Auckland	6.8	13.2	-6.4
Waikato	26.0	41.0	-15.0
Bay of Plenty	25.0	50.0	-25.0
Gisborne/Hawke's Bay	23.7	41.7	-18.0
Taranaki/Manawatu-Whanganui	35.1	44.0	-8.9
Wellington	26.9	13.6	13.3
Nelson/Marlborough/West Coast	30.8	33.6	-2.8
Canterbury	32.5	13.6	18.9
Otago	21.8	37.6	-15.8
Southland	37.0	40.0	-3.0

Source: Westpac McDermott Miller

*Regional economic confidence is the balance of households expecting good, as opposed to bad, economic times in their region over the coming year, as a percentage of total number of households. Sample sizes, and margins of error, vary by region. The national average is weighted by the share of each region in the total population. The survey was conducted over 1-11 March, with a total sample size of 1555.

has no doubt played a key role in boosting confidence. Other major dairying regions – Waikato and Taranaki/Manawatu/Whanganui – have also moved up the ranks over the past year. But as these regions have risen up the ranks, the Bay of Plenty has stumbled back into the middle of the pack this quarter, after dominating the number 1 spot for the past 18 months.

For the second quarter in a row, Auckland takes the wooden spoon as the least optimistic in the country. Only a net 7% of residents expect the region's economy to improve over the year ahead. Aucklanders' confidence in the region has been on a downward spiral for the past couple of years, despite a continuation of solid employment growth (with construction and tourism two sectors performing strongly). Instead, many of the region's "growing pains", including unaffordable housing and transport woes, are likely weighing on residents' view of the region's prospects.

Regional discussion

Northland: Regional confidence edged lower in Northland this quarter, with a net 14% of respondents expecting good economic times in the region over the next 12 months. This is well above the historic average of -3%. It has been a significant turnaround in Northlanders' sentiment in recent quarters. December was the first quarter in over two years with optimists outweighing pessimists, and back in March 2016, a net 14% of respondents expected the region's economy to deteriorate over the year ahead. Prospects in the region are being boosted by high log prices, rising tourist numbers and strong gains in house prices. While dairying is also an important sector in the region, a summer drought means the region won't yet be seeing the benefit of improved milk prices.

Auckland: Aucklanders' views of their region's economic prospects have been declining since mid-2014, seeing it at the bottom of the regional confidence ranking for the past two quarters. Only a net 7% of respondents expect Auckland's economy to improve over the next 12 months, well below the historical average of 18%. While there are still a lot of positive indicators for the region in terms of employment, construction and tourism, concerns around housing affordability and transport woes might be tainting residents' view of the region's economic prospects. The region also has less to gain from improving dairy prices than other parts of the country.

Waikato: After surging higher in December, regional confidence in Waikato pulled back in March. A net 26% of respondents expect the regional economy to strengthen over the next 12 months, only just above the historical average of 23%. But despite this quarter's decline, confidence is much higher than a year earlier when pessimists outweighed optimists. Given the importance of dairying to the region, an improved outlook for dairy prices will have played an important role bolstering confidence in the region's economy. The region is also enjoying strong growth in population, which underpins demand for retail, services and housing. That said, the pace of house price gains has slowed in recent months, which may have a dampening impact on confidence in the region.

Bay of Plenty: Regional confidence in the Bay of Plenty faltered a bit this quarter. A net 25% of respondents expect the region's economy to strengthen over the next 12 months, down from a strong 50% last quarter. This quarter's reading is the lowest since September 2015, and has seen the Bay of Plenty fall back into the middle of the regional rankings, after dominating the top spot for the past 18 months. That said, sentiment still remains firmly upbeat. This isn't surprising given the number of positive factors that remain in play, including ongoing strength in the horticulture sector (led by kiwifruit), rising visitor arrivals and strong population growth. Improving labour market conditions are also likely to have bolstered confidence in the region's economy.

Gisborne/Hawke's Bay: A net 24% of respondents expect the Gisborne and Hawke's Bay economy to strengthen over the next 12 months. Although down from 42% in December, this is still above the historical average of 14%. While these regions haven't been enjoying the same degree of population growth as other parts of the country, rising construction and solid gains in house prices have still been supporting activity. The region is benefitting from a positive outlook for horticulture and viticulture, although conditions for sheep and beef farmers have been more mixed.

Taranaki/Manawatu/Whanganui: A net 35% of respondents are feeling positive about the region's prospects over the year ahead. While down a bit from December, this result was enough to hold second place on the regional confidence rankings. It is also well clear of the historical average of 19%. Confidence is up a whopping 57 points over the past year, with an improved outlook for dairy sector incomes flowing through into confidence for the broader region. House prices and homebuilding have also been rising.

Wellington: It's been a rocky ride for regional confidence in Wellington in recent quarters. Confidence surged to a nine-year high of 39% in September, took a dive in December (likely shaken by the disruption and uncertainty caused by November's Kaikoura earthquake), and has now bounced back, although not quite to September's highs. A net 27% of residents expect Wellington's economy to strengthen over the coming year – a middle of the pack reading. The region is seeing solid population growth and, after being late to the party, house prices have surged over the past year. Wellington residents also enjoy some of the highest incomes in the country.

Nelson/Marlborough/West Coast: After a solid rise in December, regional economic confidence in Nelson/Marlborough/West Coast held onto most of its gains in March. A net 31% of respondents expect the regional economy to strengthen over the year ahead, ahead of the long-term average of 23%. The region has been seeing strong growth in visitor arrivals, and homebuilding has begun to pick up after being subdued for a while. The region's exposure to commodities is a varied one, but wine, fruit growing and forestry are all important employers in the region and these industries have been faring well.

Canterbury: Confidence in Canterbury's economic prospects picked up in March, reversing last quarter's sharp decline which looks to have been caused by disruption and uncertainty resulting from November's 7.8 magnitude earthquake that struck near Kaikoura, in North Canterbury. A net 32% of respondents expect the region's economic fortunes to improve over the coming year, a bit above average. Although construction activity associated with the rebuild after the devastating 2011 earthquakes is well past its peak and gradually winding down, there is a sense of vibrancy in the city as commercial completions rise and businesses move back into the central city. The region is also benefitting from a strong outlook for the tourism sector and the recovery in dairy sector incomes. However, with the housing stock now back to more normal levels, house prices in the region have flattened off and this may be one factor that weighs on confidence going forward.

Otago: Regional economic confidence declined in Otago in March, with a net 22% of respondents expecting the region's economy to improve over the next year. Although that unwinds the gains from last quarter, confidence is still a bit above the long-term average of 17%. Tourism particularly in the Queenstown-Lakes district is doing very well and central Otago is benefitting from a strong horticulture sector. However, conditions in the meat and wool sector have been more mixed. Strong gains in house prices across the region and rising homebuilding will also be helping to support confidence in the region's economic prospects.

Southland: A net 37% of respondents expect Southland's economy to improve over the coming year, down only slightly from 40% in December. This saw Southland on top of the regional confidence rankings for the first time since 2012. It's been a dramatic turnaround from the most pessimistic region a year ago, when a net 22% of residents expected the regional economy to deteriorate. Given the importance of dairying in the region, the improved outlook for dairy incomes will likely bolster growth and employment prospects in the region.

Consumer confidence (which summarises households' expectations about their own financial situation, their expectations for the NZ economy as a whole, and their willingness to buy a large household item) declined across most regions in the March quarter, consistent with the broad-based decline in regional economic confidence.

The largest declines in consumer confidence were in Otago and the Bay of Plenty, with households becoming less optimistic about the national economic outlook and their own finances. Consumer confidence in Southland held its ground this quarter, but it's only at an average level. This means that despite Southlanders' positivity about their region's prospects, they're not enjoying the spoils just yet. Part of this may reflect the delayed nature of milk price payments, and there is still an element of caution regarding big ticket spending.

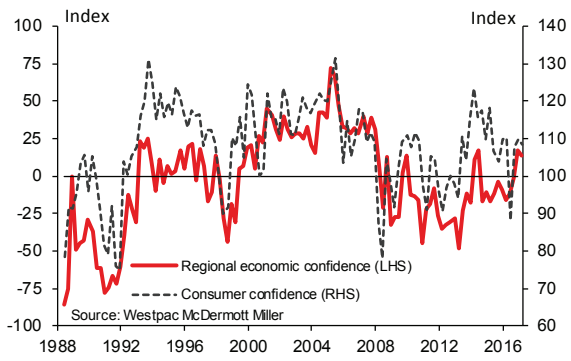
Consumer confidence in Auckland and Canterbury bucked the trend this quarter, recording small gains. For Auckland, it was the highest reading in a year, and while only rising back to an average level, it's quite a contrast to the weak regional economic confidence reading. So while Aucklanders are not very optimistic about their region's prospects, they remain upbeat about their own economic fortunes and the outlook for the national economy.

Sarah Drought
Economist

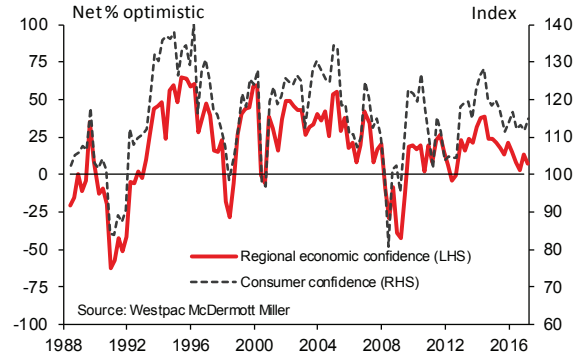
Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Mar-17	Dec-16	Change
Northland	108.4	109.7	-1.3
Auckland	115.1	111.8	3.2
Waikato	111.4	116.6	-5.2
Bay of Plenty	107.4	115.0	-7.6
Gisborne/Hawke's Bay	109.3	113.9	-4.6
Taranaki/Manawatu-Whanganui	111.3	114.4	-3.1
Wellington	113.2	117.3	-4.0
Nelson/Marlborough/West Coast	113.4	117.1	-3.7
Canterbury	110.1	108.0	2.1
Otago	105.7	115.8	-10.1
Southland	108.4	108.4	0.0
Nationwide	111.9	113.1	-1.2

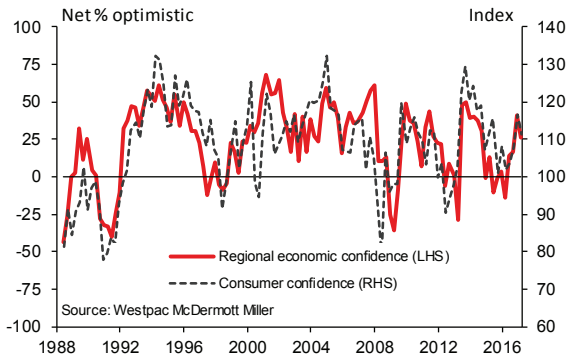
Northland



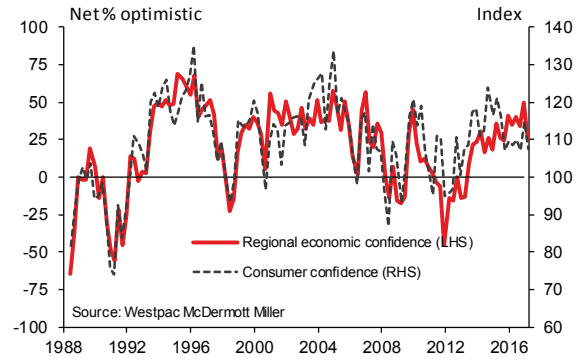
Auckland



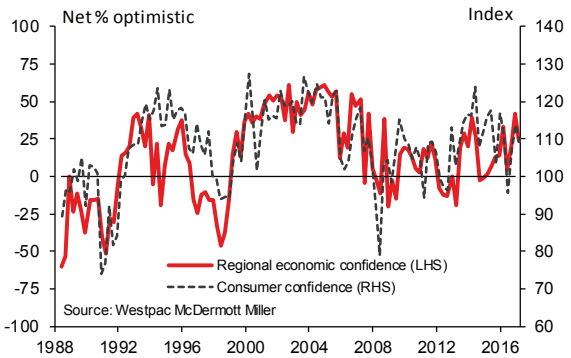
Waikato



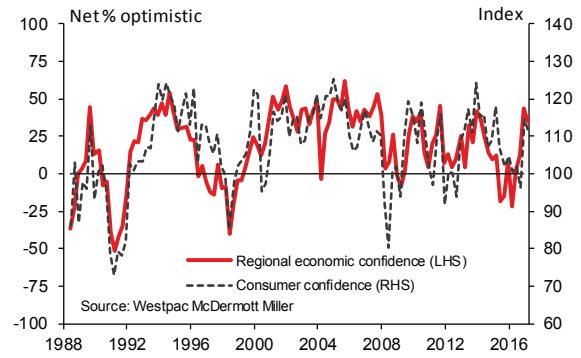
Bay of Plenty



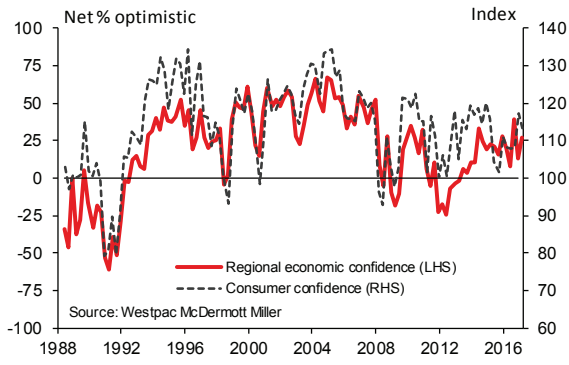
Gisborne/Hawke's Bay



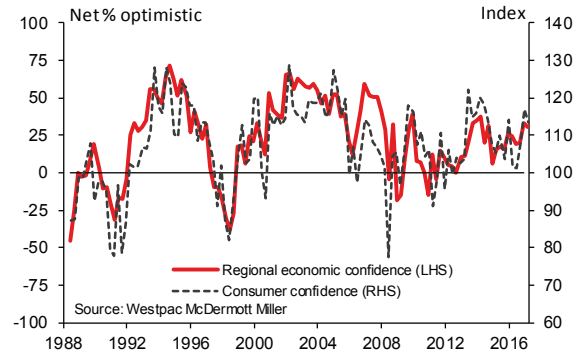
Taranaki/Manawatu-Whanganui



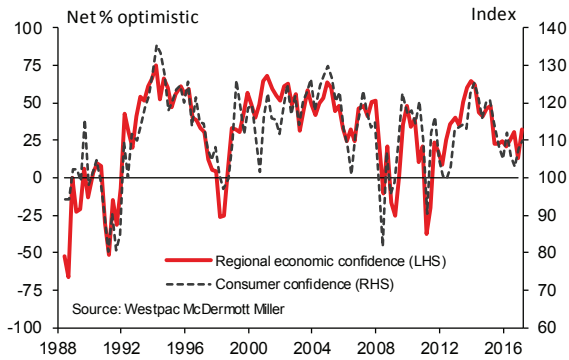
Wellington



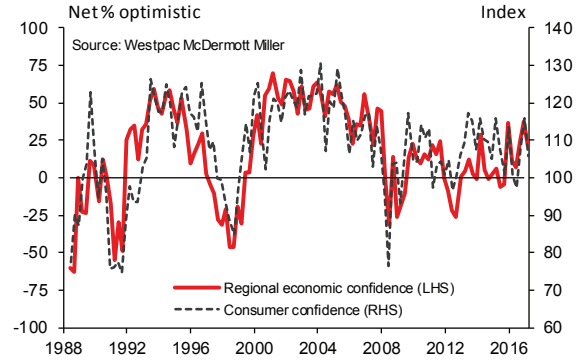
Nelson/Marlborough/West Coast



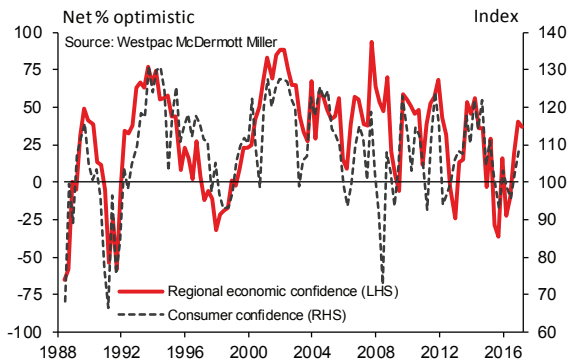
Canterbury



Otago



Southland



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