

Town and country

Westpac McDermott Miller Regional Economic Confidence, June Quarter 2017

28 June 2017

- Regional economic confidence improved in most parts of New Zealand in the June quarter.
- However, confidence has continued to slide in the Auckland region, and remains well below its highs in Canterbury.
- Improved export prices across dairy, meat, horticulture and forestry will have boosted optimism in the rural regions.
- Consumer confidence (a measure of households' views of their own economic conditions) also improved in most regions, with Auckland again an exception.

Regional economic confidence was mixed across the country in June, according to the Westpac-McDermott Miller Regional Economic Confidence survey. While most regions saw a lift in confidence compared to March, there were declines in the country's two biggest population centres – Auckland and Canterbury. What's more, those two regions have been bucking the generally positive trend in the rest of the country for some time.

In the case of Canterbury at least, there is an obvious reason for reduced optimism about the region's economic prospects. Earthquake-related rebuild activity is now well past its peak, and is in the decline phase. While there's still a lot of vitality in the region, particularly as Christchurch's CBD is gradually repopulated, the pace of economic growth has clearly slowed in recent times, and unemployment is on the rise (albeit from very low levels).

The ongoing decline in Aucklanders' confidence about their region's economy is more puzzling. Other indicators of activity suggest that Auckland has been among the faster-growing regions – and that's without the help of strong agricultural export prices. So it may be that economic sentiment is being held back more by the city's growing pains – houses are both unaffordable and in short supply, and its infrastructure is coming under increasing strain.

Economic confidence was generally stronger for the more rural regions in the June quarter. Since the March survey, Fonterra has lifted its farmgate milk price for last season to \$6.15/kg, and has forecast an above-average price of \$6.50/kg for the new season. While some of the rebound in dairying incomes will go towards debt reduction, there will also be room for more spending on farm services, with knock-on effects for incomes and job creation in the surrounding areas.

However, the biggest gains in confidence this quarter weren't in the dairy-intensive regions. Nelson, Marlborough and the West Coast combined were the most optimistic regions this quarter, a spot that they haven't occupied since 2009. There was also a strong lift in confidence in the Bay of Plenty and the Gisborne and Hawke's Bay regions. These areas cover a broad range of agricultural products including beef, lamb, horticulture and forestry – all of which have benefited from strong international prices lately.

Regional economic confidence*

Region	Net Confidence (%)		
	Jun-17	Mar-17	Change
Northland	23	14	9
Auckland	2	7	-5
Waikato	32	26	6
Bay of Plenty	42	25	17
Gisborne/Hawke's Bay	34	24	10
Taranaki/Manawatu-Whanganui	43	35	8
Wellington	30	27	3
Nelson/Marlborough/West Coast	50	31	19
Canterbury	29	33	-4
Otago	24	22	2
Southland	39	37	2

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 June, with a total sample size of 1555.

Regional discussion

Northland: Economic confidence in Northland improved further in the June quarter, with a net 23% of respondents expecting good times for the region's economy over the next year. This is the highest reading for the region since 2007. Northland is benefiting from strong population growth and its links to the Auckland economy. Growing tourist numbers, a sustained period of high log prices and the recovery in dairy prices have provided a further boost. Northland is currently seeing the fastest rise in house prices of any region, up 19% over the last year. Notably, the pace of growth has not slowed in recent months despite the tightening of loan-to-value ratio restrictions and rising mortgage rates.

Auckland: Aucklanders were again more pessimistic about the prospects for their region, continuing the slide in confidence that began in 2014. A net 2% of Aucklanders now believe the region's economic fortunes will improve over the coming year. Economic conditions in Auckland are closely linked to developments in the housing market. Following strong gains in recent years, house price growth in the region has now cooled markedly and this is likely to dampen activity more generally. The region is also facing challenges from the growing pressure on its infrastructure.

Waikato: A net 32% of Waikato households expect the region's economy to strengthen over the coming year, putting it above its long-term average of 23%. The improved outlook for incomes in the dairying sector has supported a lift in economic confidence over the past year. As part of the 'golden triangle' along with Auckland and the Bay of Plenty, the Waikato has also benefited from growth across a broader range of industries. The region is also experiencing strong population growth, though unlike Auckland it is building fast enough to meet demand.

Bay of Plenty: Regional confidence in the Bay of Plenty improved in the June quarter, following an unusually large fall in the March quarter. Notwithstanding the previous quarter's decline, the Bay of Plenty is the region that has most consistently seen high levels of economic confidence in recent years. This optimism has been backed by ongoing strength in the horticulture sector (led by kiwifruit), rising tourist numbers, and a construction boom to match the rapidly growing population. The housing market remains buoyant, although the pace of house price growth has slowed substantially over the last year.

Gisborne/Hawke's Bay: A net 34% of Gisborne and Hawke's Bay households expect the region's economy to strengthen over the coming year, well above the long-term average of 14%. Improved conditions in the agricultural sector, particularly for pipfruit, have given confidence a boost in these regions. More generally, the tone of our recent discussions in these regions has been overwhelmingly positive, with businesses many looking to expand capacity. Construction activity is increasing, and the tourism sector is enjoying solid growth in demand. After a long period of flat to falling prices, the housing market has picked up strongly in the Hawke's Bay region over the last two years, joined more recently by the Gisborne region.

Taranaki/Manawatu-Whanganui: Households in the Taranaki and Manawatu-Whanganui are among the most optimistic in the country. A net 43% of respondents expect the local economy to strengthen over the coming year, putting it close to its highest levels of the last decade. Taranaki in particular is a prime dairying region, and the improvement in dairy sector incomes over the past year is no doubt playing an important role in bolstering confidence in the region. The Manawatu-Whanganui region has benefited from higher agricultural prices across the board, and has one of the more buoyant housing markets in the country.

Wellington: Wellingtonians were more upbeat about their region's economic prospects in the June quarter, with a net 30% expecting better conditions over the next year. Population growth and a strong tourism season are boosting demand in the Wellington region. On top of this, construction activity has continued to rise, boosted by repair spending following November's earthquake. Notably, while confidence in the region's economy is improving, households' confidence about their own financial situation has fallen below average (see below). A shortage of housing has been developing in the region over the last couple of years – albeit nowhere near to the same extent as in Auckland – and housing affordability is a growing concern.

Nelson/Marlborough/West Coast: The northern and western parts of the South Island emerged as the most upbeat parts of the country in the June quarter. Industry exposures vary substantially across these regions, but dairy, wine, fruit growing and forestry are important employers and the outlook for each is generally positive. The top of the South Island has also benefitted from the surge in visitor numbers in recent years.

Canterbury: Canterbury was one of only two regions (the other being Auckland) where economic confidence fell in the June quarter. Regional confidence has remained at below-average levels for the last two years, as the level of earthquake rebuild activity has entered its decline and unemployment has started to rise from very low levels. That said, conditions in the Canterbury economy as a whole remain positive, with firm activity in both the manufacturing and service sectors.

Otago: A net 24% of Otago households expect the region's economy to improve over the coming year. While that's only slightly higher than in March, it follows strong gains over the past year and leaves confidence at high levels. Strengthening conditions in export sectors have been a boon for the region. The record tourist season continues to provide a large boost to demand, especially in the Queenstown-Lakes district. At the same time, we're seeing positive trends in sectors such as horticulture, and construction is picking up.

Southland: A net 39% of Southland households expect the region's economy to strengthen over the coming year. That's up slightly from March, and well above the region's long-term average. Regional confidence has surged over the past year as world dairy prices have rebounded by more than 50% from last year's lows. This will translate into improved incomes and more job creation over the coming year.

Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Jun-17	Mar-17	Change
Northland	113.3	108.4	4.9
Auckland	113.5	115.1	-1.6
Waikato	112.2	111.4	0.8
Bay of Plenty	119.5	107.4	12.1
Gisborne/Hawke's Bay	118.5	109.3	9.2
Taranaki/Manawatu-Whanganui	114.8	111.3	3.5
Wellington	108.0	113.2	-5.2
Nelson/Marlborough/West Coast	115.2	113.4	1.8
Canterbury	112.2	110.1	2.1
Otago	114.8	105.7	9.1
Southland	115.2	108.4	6.8
Nationwide	113.4	111.9	1.5

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) improved across most regions in the June quarter, consistent with the broad-based rise in regional economic confidence.

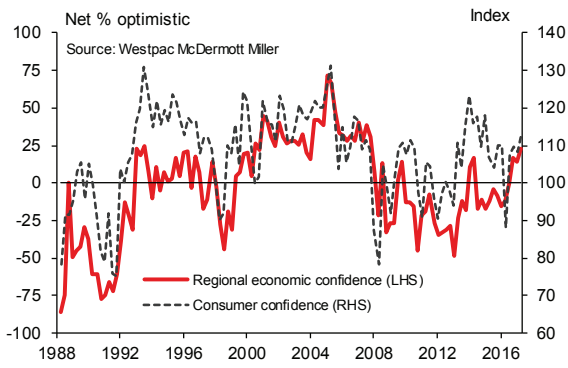
The biggest gains in consumer confidence were in the Bay of Plenty and Gisborne/Hawke's Bay, putting them back as the most optimistic regions in the country. Confidence also rose strongly in the Otago region, following a sharp drop in the previous quarter. In each case, respondents were particularly upbeat about the outlook for the economy over the next year.

In contrast, consumer confidence fell in Auckland and Wellington – also making them the only two regions where confidence is below its long-term average. In Auckland's case, this was paired with a drop in confidence about the regional economy, and continues a long-running downward trend in confidence in the region. Households' current financial circumstances and willingness to buy major household items have been particularly subdued in recent times. Wellingtonians were more circumspect about both their own finances and broader economic conditions.

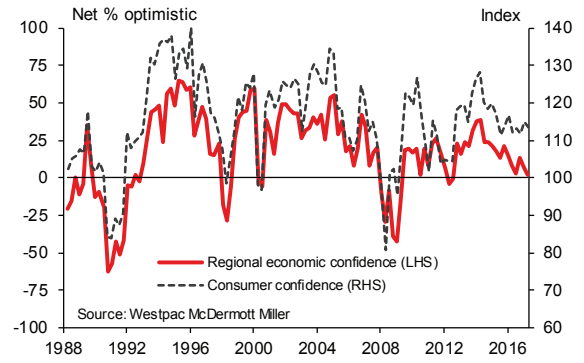
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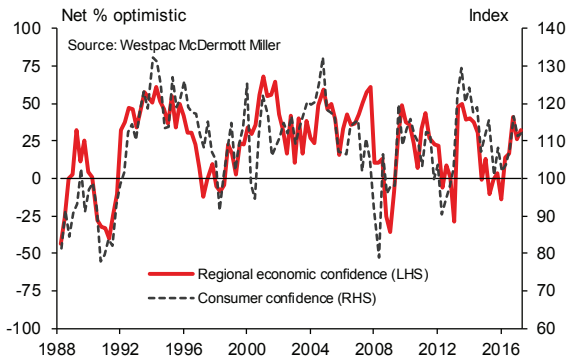
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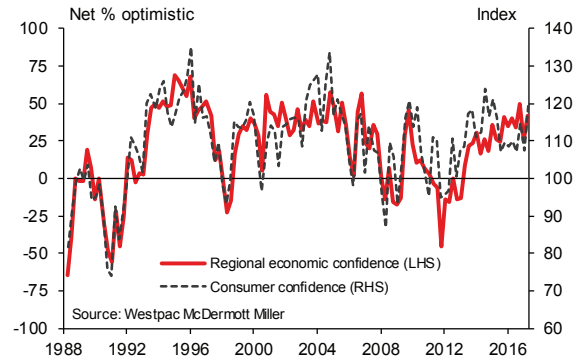
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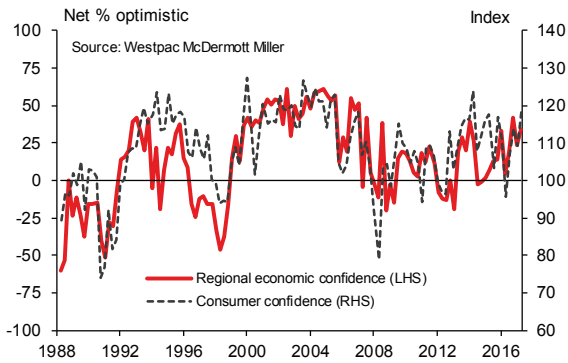
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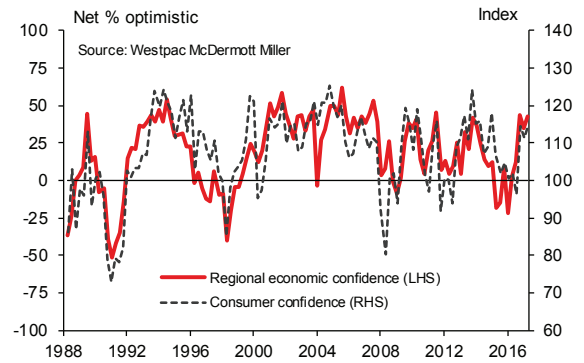
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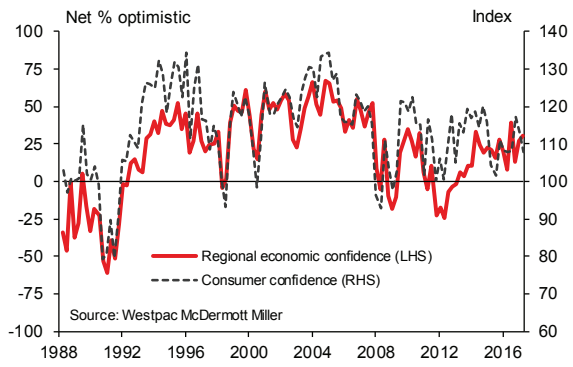
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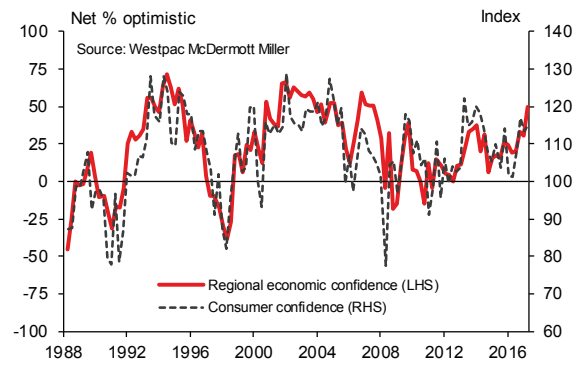
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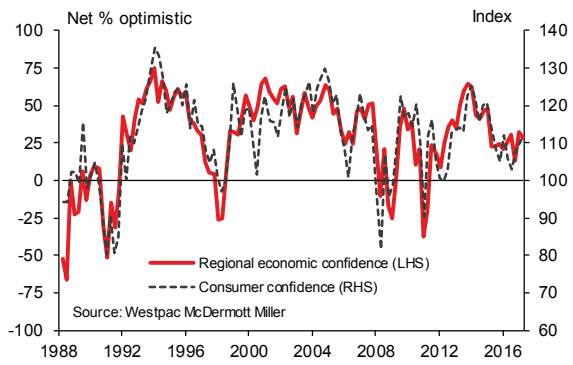
Wellington



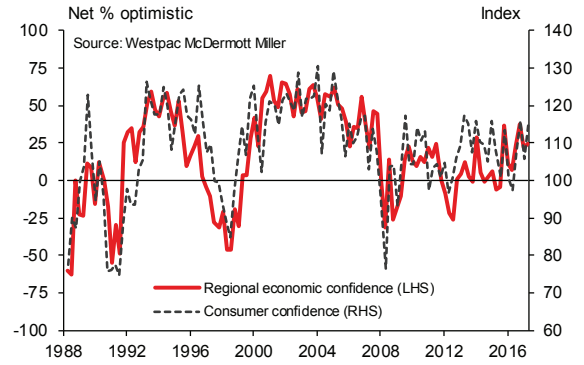
Nelson/Marlborough/West Coast



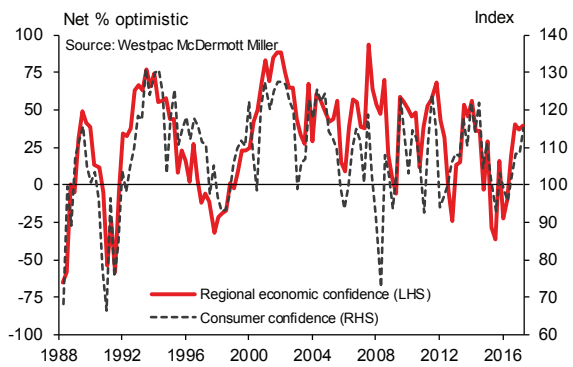
Canterbury



Otago



Southland



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