

The Great Divide

Westpac-McDermott Miller Regional Economic Confidence, September 2017 quarter

22 September 2017

- Regional economic confidence deteriorated in most of New Zealand's rural regions in the September quarter, despite improved agricultural conditions.
- Meanwhile, regional economic confidence in regions that host our major cities was mixed.
- Separately, the consumer confidence index (a measure of households' views of their own economic conditions and those of the New Zealand economy in general) showed a fall for all rural regions, and rises in the three main centres.

Regional economic confidence*

Region	Net Confidence (%)		
	Sept-17	Jun-17	Change
Northland	17	23	-6
Auckland	8	2	6
Waikato	6	32	-26
Bay of Plenty	37	42	-5
Gisborne/Hawke's Bay	23	34	-11
Taranaki/Manawatu-Whanganui	23	43	-20
Wellington	26	30	-4
Nelson/Marlborough/West Coast	30	50	-20
Canterbury	44	29	15
Otago	20	24	-4
Southland	45	39	6

Source: Westpac McDermott Miller

*Regional economic confidence reflects the difference between the percentage of survey respondents that expect economic conditions in their region to improve and those that expect prospects to worsen over the next 12 months. Sample sizes and margins of error vary by region. The survey was conducted over 1-10 September 2017, with a total sample size of 1553.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence eased in the September quarter. The net number of households having a positive view of their region's economic prospects fell in eight of eleven regions.

Some of these declines were quite large, especially in rural regions. This is surprising given recent increases in soft commodity prices, falling unemployment levels and rising tourism numbers, all of which should support regional optimism. Uncertainties about the upcoming election and what this means for the agricultural sector might explain this apparent anomaly.

Southland stands out from its rural counterparts. According to the survey, households in this region are the most optimistic in the country. This is not surprising given how important dairy production is to the region and how prices have tracked in recent quarters. Strong tourism growth has also helped to boost the local coffers.

Confidence in regions that host our largest cities was mixed. Regional economic confidence in Canterbury has rebounded after dipping in the June quarter. The region is now the second most optimistic in the country. The reasons for this are not hard to find. While the post- earthquake rebuild is now well past its peak, the local economy has benefitted from a broadening of economic activity, increasing tourism numbers, and more migrants, all of which has helped to create a sense of vibrancy in the region.

Auckland is the second least optimistic region in the country, although confidence did rise a little compared to the last quarter. Despite its strong economic performance, confidence in the region's prospects continues to be undermined by constraints to growth relating to a shortage of housing and transport infrastructure.

Economic confidence in the Wellington region remains above its historic average, despite having slipped slightly in the September quarter. The region continues to benefit from increased construction activity, partly to address damage caused by recent earthquakes but also to remedy a widening housing shortage.

Regional Discussion

Northland: Economic confidence in Northland eased back in the September quarter with a net 17% of survey respondents expecting better times over the next 12 months. Although slightly down on the previous quarter, September's result represents a fourth consecutive quarter where a net positive outlook has been achieved. Northland continues to benefit from growth in tourism, increased construction activity, rising house prices and greater employment. Sharply higher export prices for logs and dairy product prices have also supported a more positive outlook for the region.

Auckland: Optimism about Auckland's economic future was slightly higher in the September quarter compared to the June quarter, with a net 8% of households in the region feeling more confident about the next 12 months. Despite this slight improvement, confidence remains very low. The slowdown in the housing market, an acute housing shortage and ongoing transport woes continue to weigh heavily on how Aucklanders view the region's economic prospects.

Waikato: A net 6% of Waikato households have indicated that they expect the region's economy to strengthen over the next 12 months – sharply down on the 32% posted in the June quarter. This is surprising given a recent firming in dairy prices, declining unemployment and booming tourism activity in the region. Rather than becoming more pessimistic it appears that some people in the region are feeling more uncertain about where the local economy is heading. Indeed a large number of survey respondents were undecided about whether they had a positive or negative view of the region's performance over the next 12 months. Uncertainties relating to the elections might also have contributed to this result.

Bay of Plenty: A net 37% of survey respondents stated that they feel confident about their region's economic prospects over the next 12 months. Although slightly lower than in the previous quarter, households in the region remain among the most optimistic in the country. Increasing tourist numbers and firming prices for logs, dairy, meat, wool and kiwifruit are likely to have supported the positive outlook for the region. Slowing house prices, signs that the construction boom is running out of steam and possible pre-election jitters may well have contributed to the slightly lower outlook for the region in the September quarter compared to the last quarter.

Gisborne/Hawke's Bay: A net 23% of survey respondents from Gisborne and Hawke's Bay indicated that they are positive about the region's economy over the next 12 months. This is significantly down on the 34% posted for the June quarter, but still comfortably ahead of the long-term average. It is not immediately clear why confidence should have fallen in the September quarter. Improving conditions in the horticulture, viticulture and forestry industries, rising tourism numbers, double-digit house price growth and falling unemployment levels should all support positive sentiment. Admittedly, construction reflects a

mixed picture, with activity rising in Hawkes Bay but falling in Gisborne, but this by itself is not enough to explain the magnitude of the decline in regional confidence. It is worth noting that a large percentage of survey respondents were undecided about whether they had a positive or negative view of the region's performance over the next 12 months or they preferred not to answer the question. This may have affected the survey results. It is also possible that nervousness about the general election has also affected confidence in the region.

Taranaki/Manawatu-Whanganui: A net 23% of survey respondents expect the local economy to strengthen over the coming year, compared to 43% in the June quarter. Confidence is likely to have been supported by higher prices for dairy products, growth in house prices and improving labour market conditions. However, softer construction activity in Taranaki, a slowdown in house sales and pre-election nervousness seems to have dominated, resulting in a sharp reduction in confidence.

Wellington: Households in Wellington were slightly less positive about their region's economic prospects in the September quarter with a net 26% expecting better conditions over the next year. While rising housing prices, lower unemployment rates, higher incomes and increasing construction activity underpin a relatively positive outlook for the capital, a softening housing market and a shortage of homes needed for a growing population may be starting to weigh more heavily on how Wellingtonians view the future.

Nelson/Marlborough/West Coast: A net 30% of households in this region have indicated that they expect the region's economy to strengthen over the next 12 months – sharply down on the 50% posted in the June quarter, but still higher than the historic average of 25%. This decline is surprising. The dairy, wine, fruit growing and forestry industries are important employers in the region and the outlook for each is generally positive. Furthermore, construction activity across the region is on the up, and unemployment is sharply down. The only real black spots are that tourism and house prices are starting to slow. We suspect election related uncertainties have also affected the survey results. It is also worth noting that a large percentage of survey respondents were undecided about whether they had a positive or negative view of the region's performance over the next 12 months or preferred not to answer the question. This may have affected the survey result.

Canterbury: Households in Canterbury are the second most optimistic in the country. A net 44% of respondents expect the local economy to improve over the coming year, compared to 29% in the June quarter. Although the region is experiencing a drop off in earthquake rebuild work and the unemployment rate is starting to rise, economic activity is becoming more broad-based with improved contributions coming from the services and manufacturing sectors. Stronger tourism growth and rising net migration have also added to a growing sense of optimism in the region.

Otago: A net 20% of Otago households expect the region's economy to improve over the next 12 months – only slightly down on the 24% posted for the June quarter. Tourism continues to be a major contributor to confidence in the region, particularly in the Queenstown-Lakes district, while rising fruit prices have underpinned a more promising outlook for the horticultural sector. Increasing construction sector activity, double-digit growth in house prices and rising house sales volumes are also likely to have supported an optimistic outlook.

Southland: Households in Southland are the most optimistic in the country. A net 45% of survey respondents expect the region's economy to improve compared to 39% in the June quarter. The rise in regional confidence for Southland is not surprising. Improving dairy and other soft commodity prices have helped to boost the region's agricultural sector. Sustained growth in tourist numbers, benefitting from capacity constraints in nearby Queenstown-Lakes district, are also likely to have contributed to the positive outlook. House prices have also shown strong growth, although these have not been evenly spread across the region. The volume of house sales in the region is also starting to slow and construction growth has flat-lined.

All other regions experienced a fall in consumer confidence in the September quarter after having recorded increases in the previous quarter. The largest drop in consumer confidence was in the Nelson/Marlborough/West Coast region with households becoming less optimistic about the economy as well as their own financial positions. In Southland, the positive outlook for the region was not reflected in household's view of their own financial situations and outlook for the economy as a whole.

Paul Clark
Industry Economist

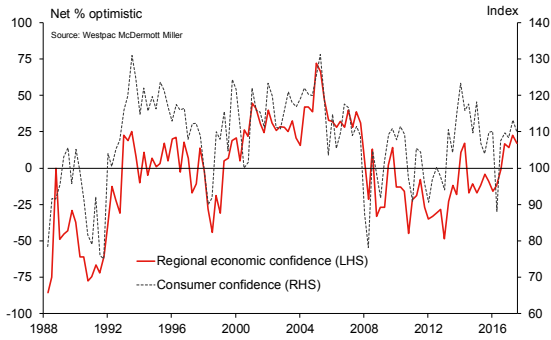
Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Sept-17	Jun-17	Change
Northland	110.2	113.3	-3
Auckland	114.6	113.5	1
Waikato	105.6	112.2	-7
Bay of Plenty	112.5	119.5	-7
Gisborne/Hawke's Bay	109.6	118.5	-9
Taranaki/Manawatu-Whanganui	112.7	114.8	-2
Wellington	112.3	108.0	4
Nelson/Marlborough/West Coast	105.5	115.2	-10
Canterbury	115.9	112.2	4
Otago	113.6	114.8	-1
Southland	110.3	115.2	-5
Nationwide	112.4	113.4	-1

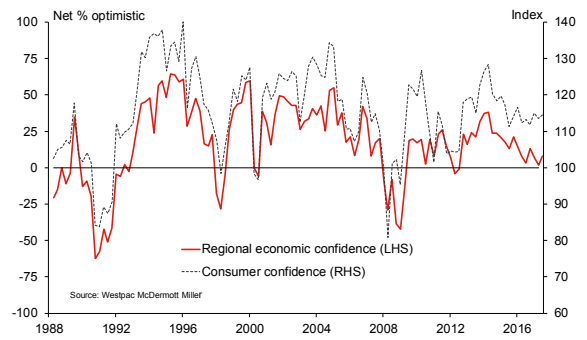
Separately, consumer confidence (which summarises households' expectations about their own financial situation, their expectations for the New Zealand economy as a whole, and their willingness to buy a large household item) declined across nine of eleven regions in the September quarter. This is broadly in line with the deterioration in regional economic confidence discussed above.

Small increases in consumer confidence were evident for each of our three largest cities, with more households in the September quarter expecting better times ahead for the economy and reporting that they are more willing to purchase large ticket items than in the June quarter. While most households still expect their financial position to improve over the coming year, only Wellington recorded a net increase in this number.

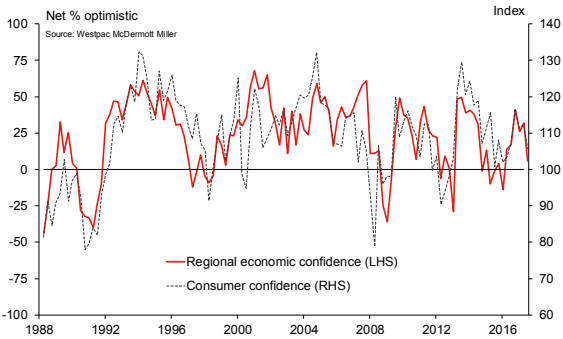
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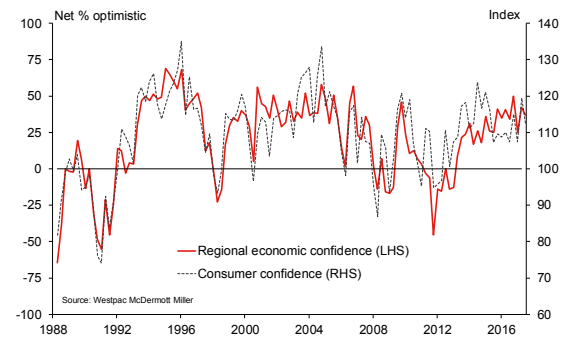
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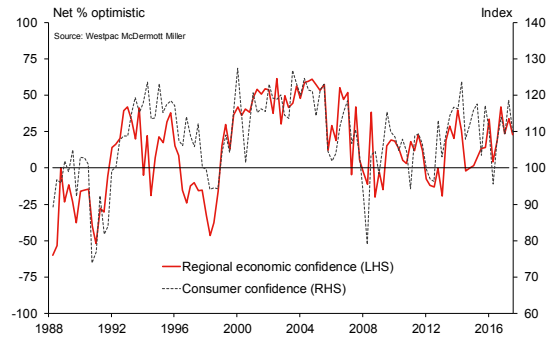
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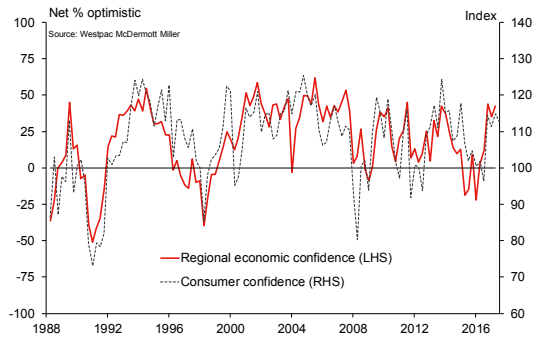
Bay of Plenty



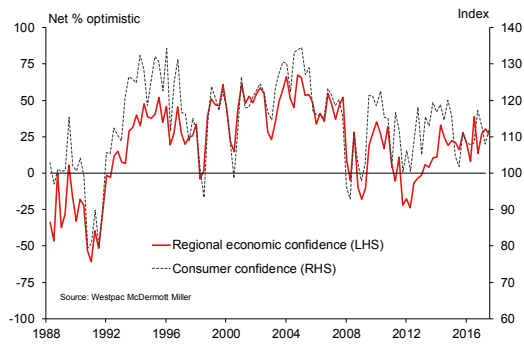
Gisborne/Hawke's Bay



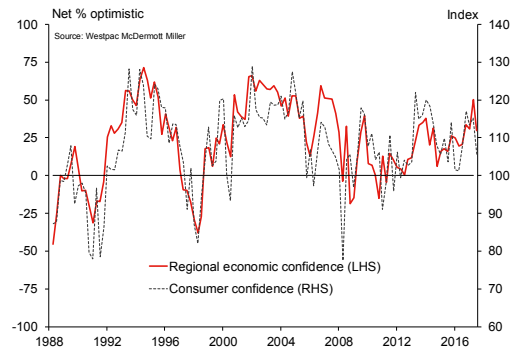
Taranaki/Manawatu-Whanganui



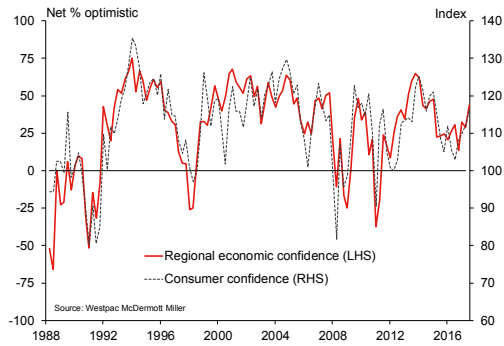
Wellington



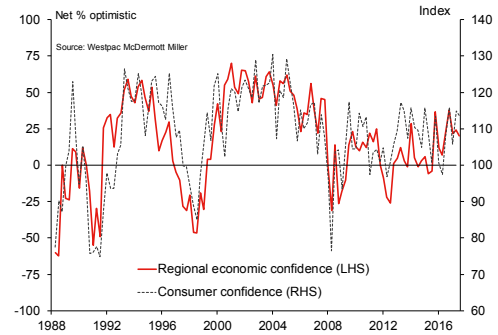
Nelson/Marlborough/West Coast



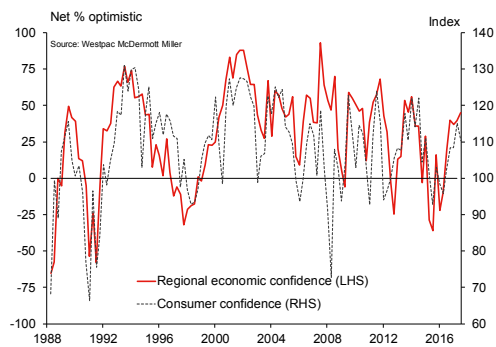
Canterbury



Otago



Southland



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