

# Shaken up

## Westpac McDermott Miller Regional Economic Confidence, December quarter 2016

- Regional economic confidence rose sharply in most parts of New Zealand in the final quarter of 2016. However, there were two notable exceptions. Confidence tumbled in Wellington and Canterbury – the regions most affected by the large earthquake in mid-November.
- The Bay of Plenty once again claims the mantle of the most optimistic region in the country.
- The biggest improvement in confidence this quarter came in the Taranaki/Manawatu-Whanganui regions where the ongoing improvement in dairy prices has probably helped bolster confidence.
- But while regional economic confidence has tumbled in parts of Wellington and Canterbury, consumer confidence (a measure of households' views of their own economic conditions), has sailed on unaffected. In the December quarter, consumer confidence rose in every region except Auckland.

### Regional economic confidence\*

Region	Regional economic confidence (%)		
	Dec-16	Sep-16	Change
Northland	16.8	-1.0	17.8
Auckland	13.2	3.2	10.0
Waikato	41.0	17.0	24.0
Bay of Plenty	50.0	34.0	16.0
Gisborne/Hawke's Bay	41.7	19.0	22.8
Taranaki/Manawatu-Whanganui	44.0	11.9	32.1
Wellington	13.6	39.0	-25.4
Nelson/Marlborough/West Coast	33.6	20.4	13.2
Canterbury	13.6	30.7	-17.1
Otago	37.6	23.8	13.9
Southland	40.0	19.8	20.2

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 1-10 December, with a total sample size of 1554.

Regional economic confidence has risen across much of New Zealand in the December quarter, with two notable exceptions. Confidence tumbled in Wellington and Canterbury – the parts of New Zealand most impacted by the 7.8 earthquake that struck near Kaikoura on the 14th of November 2016. The quake rattled many parts of New Zealand, but caused most significant damage to parts of North Canterbury and also the Wellington CBD. With the Westpac McDermott Miller Regional Confidence survey taking place between 1-10 December, it's likely that the impact of the earthquake (and subsequent aftershocks) were front of mind when respondents were asked about economic prospects in their region. That's no surprise in North Canterbury where road and rail infrastructure has been severely damaged. That's created big challenges for tourism, fishing and agriculture businesses operating in the region. And while the damage wasn't as severe or as widespread in Wellington, the quake has probably served as a (further) reminder to Wellington residents of the potential consequences of living atop a fault line.

In other parts of the country, regional confidence has continued to trek higher. This reflects the increasingly broad-based drivers of New Zealand's commendable growth performance. Strong economic activity is generating jobs and encouraging more people into the labour force, surging dairy prices have underpinned improved confidence in the outlook for rural regions, and construction activity is broadening beyond just Auckland and Canterbury. All this means many parts of the country are feeling more upbeat about their local prospects than they have in some time.

The Bay of Plenty has reclaimed its spot as the most optimistic region in the country this quarter, after briefly relinquishing this title to Wellington back in September. However, confidence has continued to slide in Auckland. This quarter Auckland is the least optimistic region in New Zealand, with a net 13% of respondents seeing better prospects for the year ahead. This is the first time Auckland has occupied the bottom spot since 2009. Although optimists continue to outnumber pessimists for now, Aucklanders' confidence in the outlook for the region's economy has been on a downward spiral over the last couple of years. Unaffordable housing, transport woes and Unitary Plan uncertainty are just some of the factors that respondents may think are weighing on local prospects.

## Regional discussion

**Northland:** Regional economic confidence moved into positive territory in Northland this quarter with a net 17% of respondents expecting good economic times in their region over the next 12 months. Further improvement in the housing market, strong visitor arrivals and strong log prices are all helping to boost prospects for the region.

**Auckland:** Aucklanders' view of their region's economic prospects have been declining since mid-2014. And while confidence in the region ticked up this quarter, the increase wasn't enough to lift it off bottom place in regional economic confidence rankings. Only a net 13% of respondents are optimistic about the region's prospects over the year ahead. Aucklanders appear to remain acutely aware of the challenges facing their region. The region also has less to gain from improving dairy prices than other parts of the country.

**Waikato:** Regional confidence in the Waikato has increased significantly since March. Given the importance of dairying to the region, higher dairy prices are likely to have been a key factor supporting this lift in optimism, outweighing the impact of weaker production thanks to an overly wet spring.

**Bay of Plenty:** After losing top spot to Wellington last quarter, the Bay of Plenty is once again the most upbeat region in the country when it comes to assessing the prospects for their local economy. A net 50% of respondents expect good economic times in the region over the next year. Strong construction activity, ongoing strength in the horticulture sector and improving labour market conditions are all likely to have bolstered regional confidence.

**Gisborne/Hawke's Bay:** Confidence posted a sizable gain in Gisborne/Hawke's Bay this quarter. The region is the third most optimistic in the country and is benefitting from the positive outlook for horticulture and viticulture while house prices in the region are also rising.

**Taranaki/Manawatu-Whanganui:** The Taranaki/Manawatu-Whanganui region showed the biggest improvement in confidence in the December quarter, jumping a massive 32.1 points. A net 44% of respondents are now feeling more positive than negative about the region's prospects over the year ahead. The region has a large exposure to the dairy industry, so improving fortunes for dairy farmers will certainly have boosted confidence in the region.

**Wellington:** While not at the epicentre of New Zealand's latest big earthquake, Wellingtonians were certainly jolted back to reality by recent events. Parts of the CBD were shut for several days, and several commercial buildings were severely damaged. This reminder of the region's vulnerabilities has made respondents much more circumspect about the economic outlook for their region over the year ahead. This seems to have trumped more positive developments in the region including surging house prices, a growing population and still high incomes. The decline in regional confidence in the December quarter has almost fully unwound last quarter's improvement and brings the measure back below its long-run average.

**Nelson/Marlborough/West Coast:** There was a solid improvement in regional confidence in the Nelson/Marlborough/West Coast region in December. The net 34% of respondents who are more positive about the region's prospects over the coming year puts it near the middle of the pack when compared to other parts of the country. The region is benefitting from a buoyant mood in the forestry sector, improving dairy prices, and the potential for the tourism sector to benefit from earthquake-induced disruption to transport and activities on the east coast.

**Canterbury:** Regional economic confidence in Canterbury took a knock this quarter as the region bore the brunt of another major earthquake. Although the November quake didn't generate as much carnage as the major Christchurch quake in February 2011 (simply because of its more rural location) it has caused significant damage in the region. Regional confidence has now fallen to its lowest level since March 2012.

**Otago:** Regional confidence in Otago rose for a second consecutive quarter in December. A net 38% of respondents expect economic prospects in their region to improve over the next year. That's the most optimistic the region has been since late 2007. Parts of the region are likely to be benefitting from the ongoing tourism boom, which may be one factor supporting higher regional confidence.

**Southland:** A net 40% of respondents think the outlook for the region will improve over the next 12 months, a further improvement from September levels. The region has a

significant exposure to the dairy sector, so improved payout prospects are likely to bolster employment and growth prospects in the region. What's more, dairy production in the region hasn't faced the same poor spring conditions as other parts of the country.

### Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Dec-16	Sep-16	Change
Northland	109.7	107.6	2.1
Auckland	111.8	113.3	-1.4
Waikato	116.6	107.9	8.7
Bay of Plenty	115.0	107.3	7.7
Gisborne/Hawke's Bay	113.9	107.2	6.8
Taranaki/Manawatu-Whanganui	114.4	96.4	18.0
Wellington	117.3	108.3	9.0
Nelson/Marlborough/West Coast	117.1	107.8	9.2
Canterbury	108.0	102.9	5.1
Otago	115.8	107.9	7.9
Southland	108.4	102.4	6.0
Nationwide	113.1	108.0	5.2

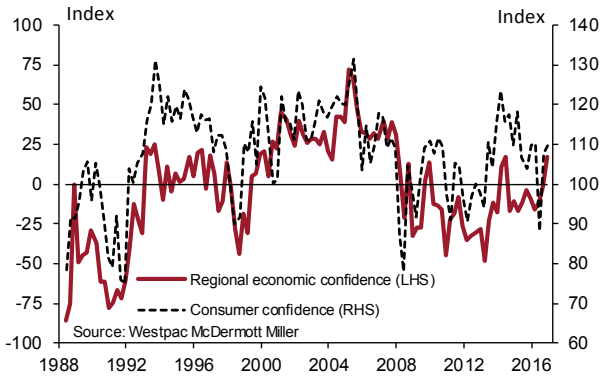
Consumer confidence (which summarises households' expectations about their own financial situation, their expectations for the NZ economy as a whole, and their willingness to buy a large household item) continued to truck higher in almost all regions in New Zealand in the December quarter. This includes households in the quake-impacted regions of Wellington and Canterbury who are feeling more positive about their own fortunes this quarter. Indeed, Wellington reported the highest consumer confidence of any region. In contrast, the only region to see a decline in consumer confidence was Auckland, where a more pessimistic view about economic activity five years ahead weighed on the outlook.

The widespread improvement in consumer confidence is consistent with the increasingly broad-based backdrop to economic growth. Rapid house price growth and strong construction activity is no longer only an Auckland phenomenon, there is widespread improvement in the labour market, rural incomes are looking much brighter thanks to the lift in dairy prices, and the record numbers of international tourists making their way to NZ are travelling far and wide. And with the economic backdrop set to remain buoyant in 2017 consumer confidence could improve further from here.

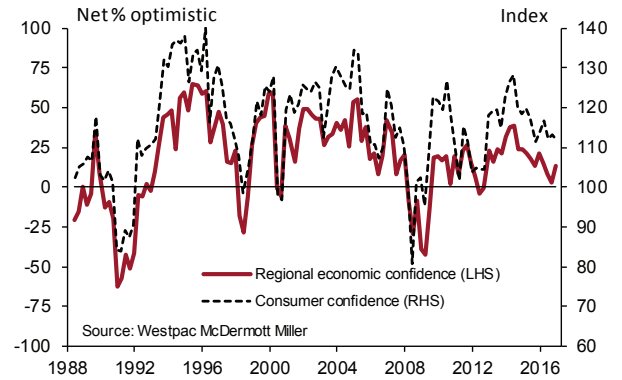
#### Anne Boniface

Senior Economist

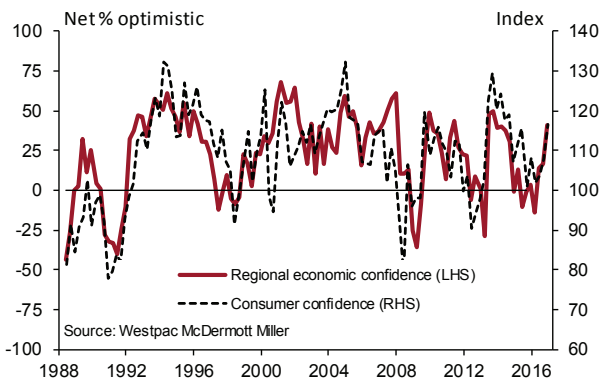
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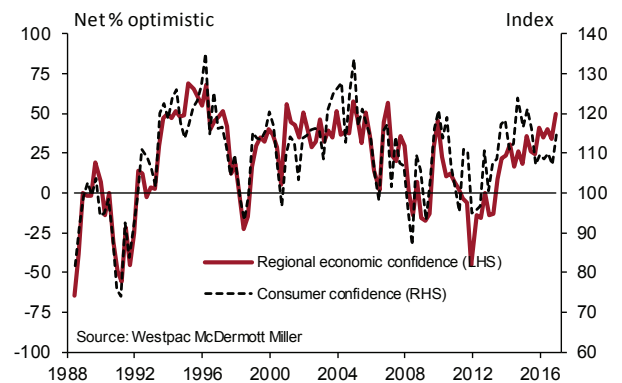
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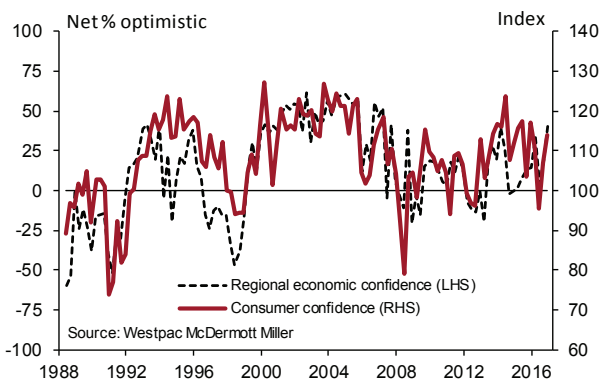
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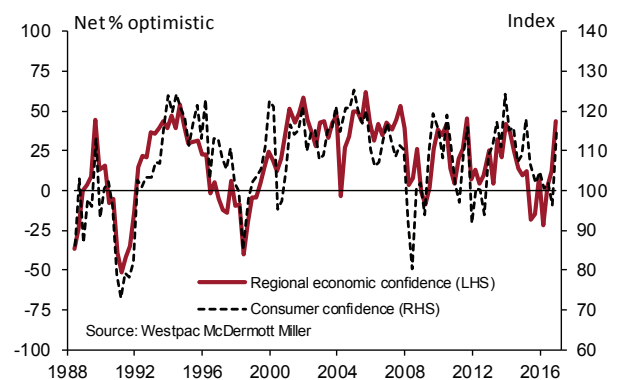
### Bay of Plenty



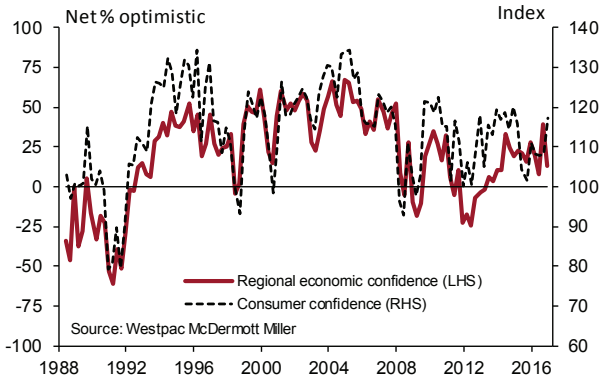
### Gisborne/Hawke's Bay



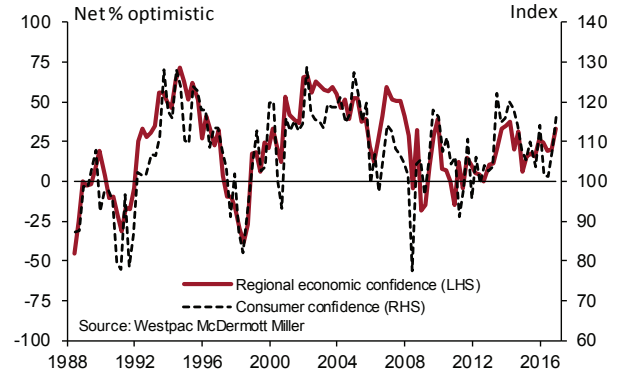
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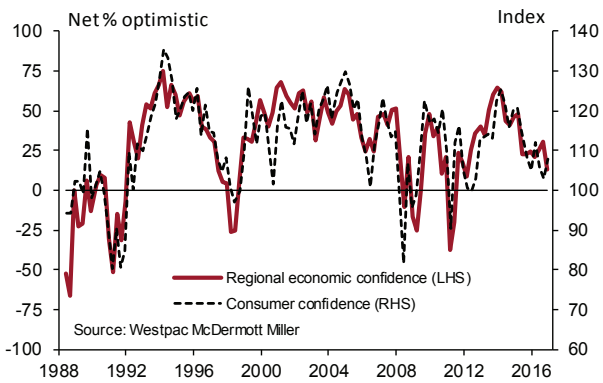
### Wellington



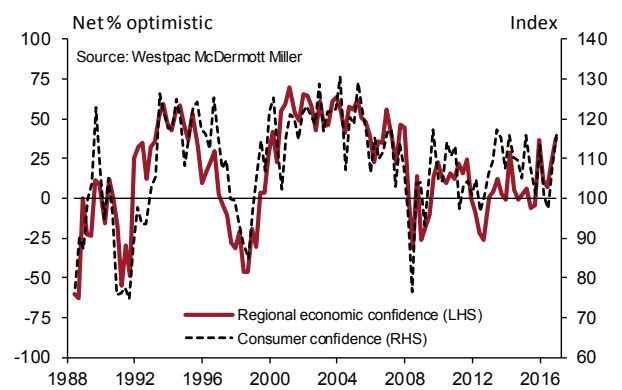
### Nelson/Marlborough/West Coast



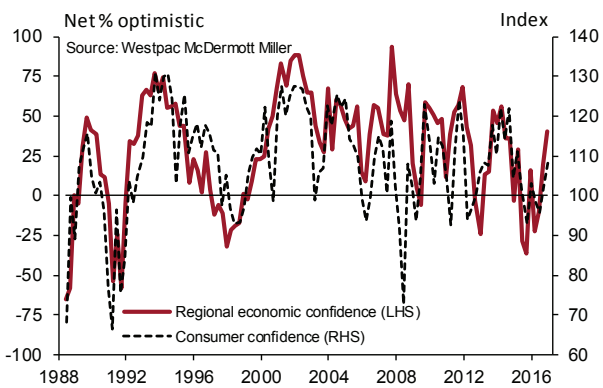
### Canterbury



### Otago



### Southland



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