

Temperature Check

Westpac-McDermott Miller Regional Economic Confidence, March 2018 quarter

26 March 2018

- The Westpac McDermott Miller Regional Economic Confidence Index rose in nine out of eleven regions in the March 2018 quarter.
- Households in Auckland remain the most negative about their region's economic prospects. Meanwhile, those in Wellington were the most optimistic.
- Confidence in some rural regions was affected by severe weather events, which impacted agricultural production and other aspects of the economy.
- Separately, consumer confidence (a measure of households' views of their own economic conditions) increased in nine of eleven regions.

The Westpac-McDermott Miller Regional Economic Confidence survey shows that households are feeling a bit more confident about their regions' future now that the new Government is firmly in place. Confidence rose in nine regions in the March 2018 quarter, compared to only six in the previous quarter.

All of the regions that recorded a drop in regional economic confidence in the December quarter posted increases in the March 2018 quarter. Most were marginal, but two were significant. The biggest increase was in Auckland, which despite a recent lift in house prices, remains the most pessimistic the country. The second biggest was in the Bay of Plenty, although gains were not enough to reverse the large drop in confidence posted in the previous quarter. That said, households in the region remain pretty confident about the future, but just not quite as confident as they used to be.

The two regions where regional confidence fell were both in the South Island. Otago posted the largest drop in the March quarter. Most of this was likely due to a technical correction following a large increase in the previous quarter. However, drought conditions and growing worries about how the region might deal with an expected increase in tourists may also have contributed to this lower reading. The large fall in regional confidence in the Nelson/Marlborough/West Coast region, which was enough to place it among the most pessimistic regions in the country, probably reflects the impact of ex-cyclones Fehi and Gita and the widespread disruption and damage they caused to the region.

In contrast to Auckland, households in Wellington are the most optimistic in the country. In part, this is due to the change of government and what this might mean for public sector workers in the capital. Meanwhile, Canterbury sits somewhere mid-table, with households still feeling confident about their economic prospects despite growing uncertainties relating to the slowdown in construction activity in the region.

Most smaller regions showed gains in the March quarter, supported by increases in tourist arrivals, more employment and higher house prices. The announcement of an initial tranche of investment out of the Government's new Provincial Growth Fund is also likely to have supported confidence in targeted regions. Higher commodity prices will also have lifted the mood, especially in regions that were least affected by adverse weather conditions and/or the spread of the *Mycoplasma bovis*.

Regional economic confidence*

Region	Net Confidence (%)		
	Mar-18	Dec-17	Change
Northland	21	18	3
Auckland	0	-16	16
Waikato	24	18	6
Bay of Plenty	27	13	14
Gisborne/Hawke's Bay	32	27	5
Taranaki/Manawatu-Whanganui	23	17	6
Wellington	35	35	0
Nelson/Marlborough/West Coast	13	33	-20
Canterbury	23	19	4
Otago	25	52	-27
Southland	33	24	9

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 1-15 March 2018, with a total sample size of 1552.

Regional Discussion

Northland: Confidence in Northland edged higher in the March quarter, with a net 21% of households expecting better times ahead for the region. This improvement is likely to be because of an increase in tourist arrivals, more people in work, and increased spending. The region's agriculture and forestry sectors are also likely to have benefitted from elevated commodity prices, although production levels will have been affected by adverse weather events. The announcement by the Government of an initial NZ\$17.35m investment from the Provincial Growth Fund to promote regional forestry and tourism in late February will also have gone down well, as will the promise of more to come.

Auckland: Despite a big gain, regional confidence in Auckland is still the lowest in the country, with the number of households expecting better times ahead for the region cancelling out those that don't. In part this reflects concerns about the current state of the housing market and worries about what government policies might mean for house prices going forward. Well publicised infrastructure constraints and a perceived lack of action on addressing them are also likely to have loomed large for households with a more pessimistic outlook.

Waikato: Regional confidence in the Waikato improved in the March quarter with a net 24% of households feeling more confident about their region's prospects over the next 12 months. The improved sentiment is likely to reflect growth in tourist arrivals, which will have been boosted by the inaugural Hamilton Seven's rugby tournament held in early February, still strong construction activity, particularly in Hamilton, and a rise in dairy prices during the quarter. An increase in employment levels is also likely to have boosted retail sales in the region. Concerns about how the new Government's policies might impact the dairy sector affected confidence in the region last quarter, but with the Government now firmly entrenched, these concerns are likely to have dissipated somewhat this quarter.

Bay of Plenty: Regional confidence in the Bay of Plenty increased to 27% in the March quarter, up from 13% in the previous quarter. Notwithstanding adverse weather events, it is likely that recent increases in dairy, kiwifruit, and log prices will have improved the mood. So too, the recent decision by the Government to use the Provincial Growth Fund to invest NZ\$5.8m primarily on the production of forestry grade native seedlings. The possibility of more to come will have further improved the outlook. However, housing affordability issues may have weighed on confidence, especially after a global study ranked Tauranga as being more unaffordable than Auckland.

Gisborne/Hawke's Bay: A net 32% of households in Gisborne and the Hawke's Bay indicated that they are positive about the region's economy over the

next 12 months, up from 27% in the previous quarter. This improvement reflects a sharp fall in regional unemployment, and an increase in people employed in the horticulture, viticulture, hospitality and retail industries. A strong housing market is also likely to have helped. So too government plans to spend an initial NZ\$9.2m from the Provincial Growth Fund aimed at boosting regional tourism and forestry. Investment out of the fund will focus on the re-opening of the Wairoa-Napier rail line and redevelopment of the Gisborne Inner Harbour.

Taranaki/Manawatu-Whanganui: A net 23% of households in the region expect the local economy to strengthen over the coming year, up from 17% in the previous quarter. Household confidence is likely to have been supported by government plans to spend an initial NZ\$6m out of the Provincial Growth Fund to revitalise the Whanganui Port and to upgrade the town's rail line. Slightly higher crude oil prices are also likely to have given households some reason to cheer, while growth in tourism, mostly from within New Zealand, should have supported spending in the region. Labour market conditions are likely to have undermined regional confidence with the rate of unemployment picking up. So too drought conditions, which will have affected dairy and meat production in the region.

Wellington: Confidence in Wellington remained the same in the March quarter, with a net 35% of households expecting better times ahead for the region. Wellington households are the most confident in the country. With a new Government firmly in place, confidence is likely to have been boosted by the possibility of more jobs in the capital, while an unusually hot summer is likely have improved the mood and encouraged spending. Falling unemployment, population gains and higher house prices will also have contributed to retail sales growth. Confidence in the region will also have been affected by emerging housing shortages, rising rents and house prices, although it is not clear, on balance, whether these factors would have been positive or negative for the mood.

Nelson/Marlborough/West Coast: Only 13% of households were optimistic about this region's economic prospects during the March quarter, sharply lower than the 33% recorded in the previous quarter. This unusually low reading is despite the recent growth in tourist arrivals, higher levels of employment, and increased retail sales. A possible explanation might be that house prices have fallen in both Marlborough and the West Coast, while house sales volumes have dropped sharply across the region. Another could be that the region was hard hit by a series of extreme storm events, including ex-tropical cyclones Gita and Fehi, which caused widespread disruption and damage across the region, including roads and bridges being washed out and damage to horticultural and forestry businesses.

Canterbury: A net 23% of households in Canterbury were optimistic about the region's economic performance during the March quarter, which is slightly better than in the previous quarter. More respondents said that they were unsure about the region's outlook, perhaps reflecting growing uncertainties associated with the ongoing shift in activity from the construction sector to services and manufacturing. The potential for the *Mycoplasma bovis* bacterial cattle disease to spread could also have been a factor, so too the impact of hot and dry weather conditions on agricultural production. That said, household confidence is likely to have been buoyed by growth in population size, increased tourist arrivals and more people in employment, all of which have contributed to higher levels of spending. The re-opening of State Highway 1 north and south of Kaikoura is also likely to have added to the positive sentiment.

Otago: Regional confidence in the Otago region fell sharply in the March quarter with a net 25% of households feeling more confident about their region's prospects over the next 12 months, compared to 52% in the December quarter. Most of this is likely due to a technical correction following a large increase in the previous quarter. The drop in confidence might also reflect worries about whether the region's infrastructure can cater for expected increases in tourism arrivals in the future. The impact of dry and hot weather conditions on the region's horticultural and viticulture sectors and a notable decline in manufacturing activity may also have given cause for concern. The same applies to the recent decommissioning of Cadbury's long standing manufacturing plant in Dunedin, although its impact might have been partially offset by the news that an independent chocolate maker is well on the way to opening a new factory in the city later this year. It is also true that despite a sharp drop, confidence levels in this quarter are not that much different to those posted in prior quarters and are likely to have been supported by a strong tourism season, raised construction activity in Dunedin, employment gains in the hospitality and related sectors as well as increased retail spending.

Southland: Confidence in Southland recovered a bit during the March quarter, with 33% of households expecting better times ahead for the region. As a result, the region has resumed its spot as being one of the most optimistic in the country. Households were most likely buoyed by an increase in employment (and a fall in the rate of unemployment), higher house prices, increased tourist arrivals and growth in retail sales. Higher dairy, beef and lamb prices are also likely to have improved the outlook, despite prevailing drought conditions. In addition, concerns about how the new Government's policies might impact on the agricultural sector are likely to have dissipated somewhat this quarter, now that the Government is firmly entrenched. However, regional confidence could have been adversely affected by the spread of the *Mycoplasma bovis* bacterial cattle disease, which has now been found on a number of farms in the region.

Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Mar-18	Dec-17	Change
Northland	108.8	108.4	0.4
Auckland	109.4	107.5	1.9
Waikato	106.9	110.5	-3.6
Bay of Plenty	117.6	104.9	12.7
Gisborne/Hawke's Bay	106.9	105.1	1.8
Taranaki/Manawatu-Whanganui	106.2	102.0	4.2
Wellington	115.8	108.9	6.9
Nelson/Marlborough/West Coast	108.2	113.9	-5.7
Canterbury	113.5	106.5	7.0
Otago	120.8	108.6	12.2
Southland	117.0	104.6	12.4
Nationwide	111.2	107.4	3.8

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 in the March quarter, with nine of eleven regions showing an increase.

The improvement in consumer confidence is not that surprising. As mentioned in our recent Bulletin on the Consumer Confidence Index, it is not unusual for confidence to dip prior to a national election, and then recover afterwards. Consumer confidence is also likely to have been lifted by lower mortgage rates and signs that the housing market may have gained a second wind.

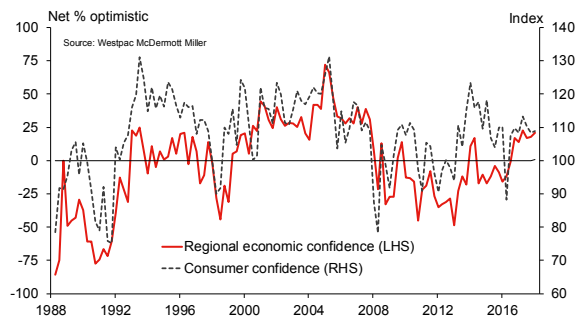
The fall in consumer confidence in both the Waikato and Nelson/Marlborough/West Coast regions reflects the fact that consumers in those regions are feeling slightly worse off than they were a year ago and are less optimistic about how the New Zealand economy will perform in the future. In the case of Nelson/Marlborough/West Coast, the decline in consumer confidence is matched by a significant drop in regional confidence.

Double digit gains in the Bay of Plenty, Otago and Southland reflect that consumers are feeling financially better off and that they are positive about how the NZ economy is likely to perform in the future. For the Bay of Plenty and Southland, this matches the improvements they posted in regional confidence.

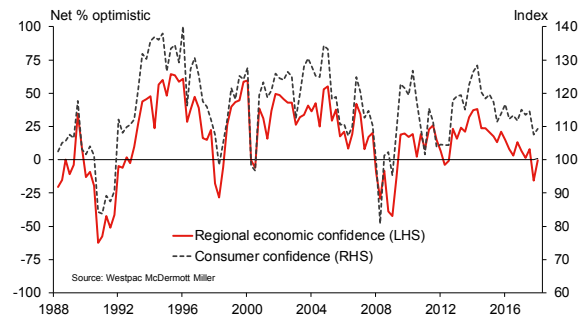
Paul Clark

Industry Economist

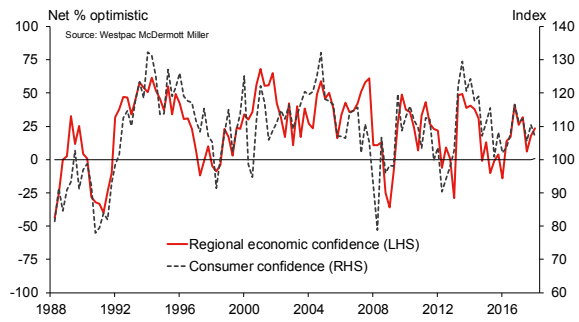
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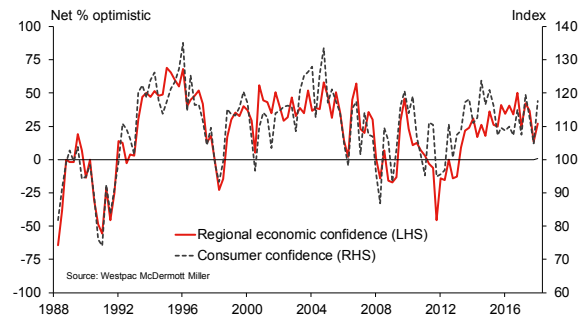
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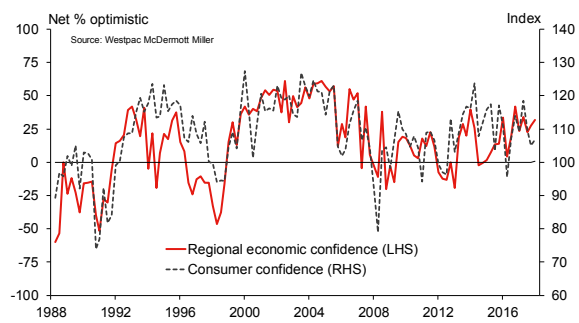
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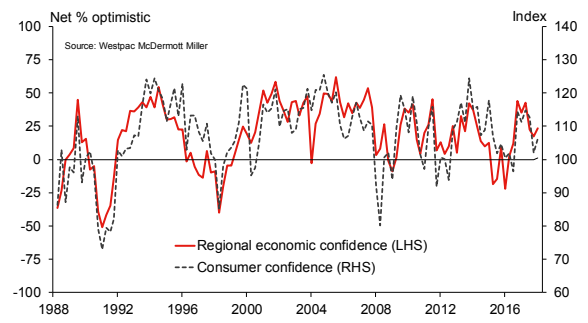
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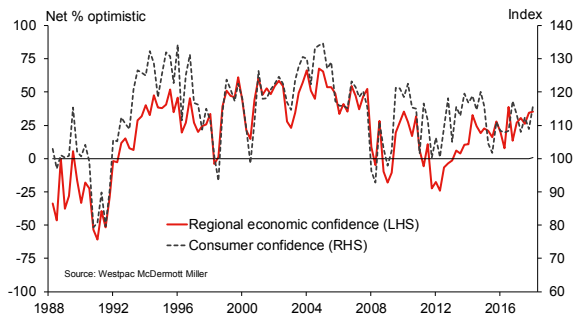
Gisborne/Hawke's Bay



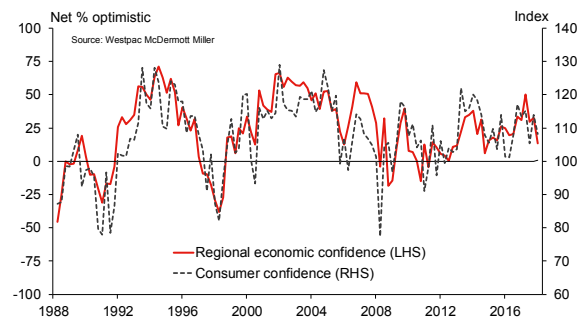
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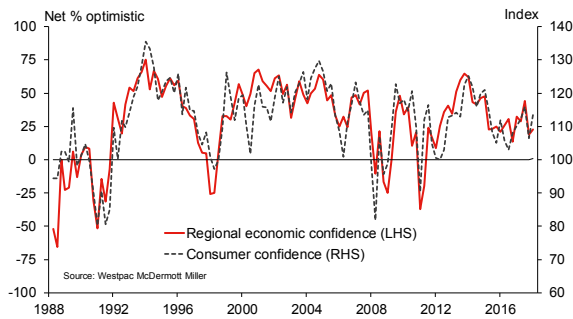
Wellington



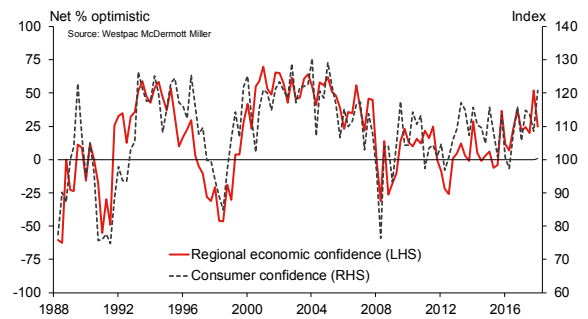
Nelson/Marlborough/West Coast



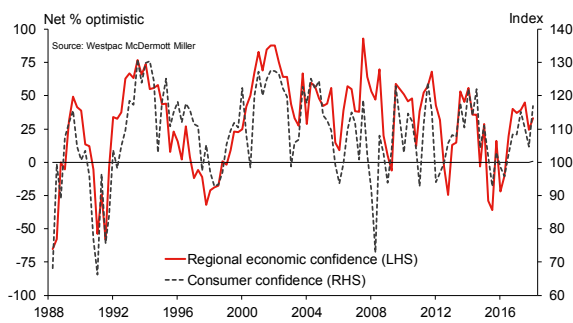
Canterbury



Otago



Southland



Contact the Westpac economics team

Dominick Stephens, Chief Economist +64 9 336 5671

Michael Gordon, Senior Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Anne Boniface, Economist +64 9 336 5669

Paul Clark, Industry Economist +64 9 336 5656

Any questions email: economics@westpac.co.nz

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