

A Mixed Bag

Westpac-McDermott Miller Regional Economic Confidence, June 2018 quarter

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- Six of eleven regions posted an improvement in regional economic confidence.
- Aucklanders are the most negative about their region’s economic prospects and are becoming more pessimistic.
- Households in Nelson/Marlborough/West Coast and the Bay of Plenty are the most optimistic about the future and confidence in both regions is well up on last quarter.
- Economic confidence in regions most closely associated with dairy and/or oil exploration has deteriorated significantly.
- Consumer confidence (a measure of households’ views of their own economic conditions) fell in eight of eleven regions.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence improved marginally in the quarter ending June 2018, with six of eleven regions showing an improvement over the previous quarter.

The biggest changes were in the rural regions.

Economic confidence in Nelson/Marlborough/West Coast, Bay of Plenty and Northland rose sharply during the June quarter. For Nelson/Marlborough/West Coast, much of this had to do with a recovery in activity after a number of severe weather events earlier in the year had washed out roads and bridges, while also damaging horticultural and forestry businesses. For the Bay of Plenty and Northland, sentiment is likely to have improved on the back of elevated commodity prices and increased tourist numbers.

The number of households expecting economic conditions to improve fell significantly in the Waikato, Taranaki/Manawatu-Whanganui and Southland. In the case of the Waikato, the region is likely to have experienced some spillover in negativity from neighbouring Auckland. The spread of the Mycoplasma bovis cattle disease to this major dairy producing region will not have helped matters. This is also likely to be one of the reasons why Southland, traditionally one of the country’s most optimistic regions, also recorded a large drop in confidence. For the Taranaki/Manawatu-Whanganui region, confidence is likely to have been shaken by the Government’s announcement that it will stop issuing permits for offshore oil and gas exploration in the region.

As indicated, households in Auckland are negative about the economic prospects for their region and are easily the most pessimistic in the country. Indeed, pessimists in the region have outnumbered optimists in two of the last three quarters. Most of this has to do with what is happening in the housing market, and more specifically what government policy might mean for house prices going forward. The imminent introduction of a regional fuel tax is unlikely to have helped matters.

In contrast, households in Wellington are quite positive about the future and have been since the new Government came to power late last year. The likelihood of more public sector jobs is likely to have been a key support. Confidence in Canterbury’s future prospects also rose in the current quarter, helped along by a strong performance from the hospitality and tourism sector.

Regional economic confidence*

Region	Net Confidence (%)		
	Jun-18	Mar-18	Change
Northland	32	21	11
Auckland	-8	0	-8
Waikato	7	24	-17
Bay of Plenty	45	27	18
Gisborne/Hawke's Bay	31	32	-1
Taranaki/Manawatu-Whanganui	11	23	-12
Wellington	39	35	4
Nelson/Marlborough/West Coast	47	13	34
Canterbury	31	23	9
Otago	31	25	6
Southland	13	33	-20

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 1-11 June 2018, with a total sample size of 1555.

Regional Discussion

Northland: Economic confidence in Northland rose for the 4th consecutive quarter in June with a net 32% of households in the region expecting better times ahead. Falling unemployment, increased inward migration, rising house prices, and elevated commodity prices are likely to have contributed to an improved outlook. Increased attention from government, and the announcement of new investment into the region, will also have added to the air of positivity. Some of this, however, will have been undone by the spread of the *Mycoplasma bovis* cattle disease to the region.

Auckland: Households in Auckland continue to be the least confident in the country with pessimists outnumbering optimists. This gloomy outlook is largely due to slowing house prices, high levels of indebtedness and concerns about what government policy might mean for the housing market going forward. This includes the possibility of a capital gains tax, which is currently being investigated by a government appointed Tax Working Group. Confirmation of an 11.5c regional fuel tax to be introduced on 1 July to fund local transport initiatives and the possibility further adjustments to excise duties are also likely to have reinforced the prevailing sense of negativity.

Waikato: Economic confidence in the Waikato declined sharply in the June quarter with just 7% of households expecting better conditions over the next 12 months. This is despite relatively low levels of unemployment and elevated dairy and log prices. House prices have also increased strongly with demand easily outstripping supply. However, as price differentials between Auckland and Hamilton have started to narrow, some of the same factors affecting confidence Auckland have become more evident in the Waikato. Not least of these relate to the impact of government policy on the housing market. Confidence is also likely to have been shaken by the spread of the *Mycoplasma bovis* cattle disease to this significant dairy producing region and ongoing uncertainties as to how government environmental policy will impact on the agricultural sector in general.

Bay of Plenty: Confidence in the region rose sharply in the June quarter. A net 47% of households expect the Bay of Plenty to prosper over the coming year, making it the second most confident region in New Zealand. This optimistic outlook reflects the performance of the horticultural sector, which has benefitted from higher avocado and kiwifruit prices. Elevated forestry and dairy prices will also have brightened the mood, while increased tourism numbers and the possibility of further investment from the Provincial Growth Fund are likely to have supported sentiment. However, the potential for the *Mycoplasma bovis* cattle disease to spread into the region is likely to have been a source of concern, especially given outbreaks in nearby regions, while construction activity is expected to soften given a recent fall in building consents.

Gisborne/Hawke's Bay: A net 31% of households in Gisborne and the Hawke's Bay indicated in the June quarter that they are positive about the region's economic

prospects over the next 12 months. The region remains relatively upbeat, in part because of net migration gains, with people from some of the larger cities in New Zealand moving to the region to pursue a change in lifestyle. Rising house prices, low unemployment, and increased attention from government are also helping to set a positive tone. The local horticultural sector has also benefitted from higher prices for apples, while winemakers in the region continue to build on a reputation for high quality products. As for other affected regions, the news that the *Mycoplasma bovis* cattle disease has been found in the region is likely to have raised some concerns, while flooding in the Gisborne area in early June may also have affected sentiment.

Taranaki/Manawatu-Whanganui: A net 11% of households in this region expect the local economy to strengthen over the coming year, sharply down on the 23% recorded in the March quarter. News that the Government will not be granting any more deep-sea oil and gas exploration permits and the possible closure of New Plymouth's Yarrow stadium because it is an earthquake risk will have come as a bit of a shock. So too, reports that the *Mycoplasma bovis* cattle disease has been found in the southern Manawatu, although it has yet to spread to Taranaki. That said, high dairy and crude oil prices will have given some cause for cheer, as will the rate of unemployment, which despite being above the national average, remains relatively stable.

Wellington: Economic confidence in Wellington rose again in the June quarter with a net 39% of households expecting their local economy to improve over the coming 12 months. Strong net migration gains, rising house prices, better job prospects in the public sector and the possibility of higher wage growth following the change of government are likely to be key factors that have lifted the mood. A recent report ranking Wellington as the best place to live out of 47 global cities, and another rating the city as the most creative in New Zealand, are evidence of the positive mood in the capital.

Nelson/Marlborough/West Coast: Household confidence in this region's economic prospects rose sharply, from 13% in March to 47% in the June quarter, making it the most confident region in New Zealand. This sharp rise reflects a recovery in activity levels after a number of severe weather events earlier in the year had left a trail of destruction, washing out roads and bridges and damaging horticultural and forestry businesses. The top of the South Island continues to see strong population growth, relatively big house price gains, and favourable operating conditions in the wine and horticultural sectors. At the same time, unemployment continues to track below the national average. Elevated dairy and log prices are likely to have supported incomes in this region, although confidence in the agricultural sector is likely to have been affected by the spread of the *Mycoplasma bovis* cattle disease into the West Coast and Nelson regions.

Canterbury: Confidence in Canterbury improved in the June quarter with a net 31% of households being optimistic about the region's economic performance over the next 12 months. Low unemployment, a thriving hospitality and tourism sector, and elevated prices for dairy and meat are

likely to have supported greater optimism in the region. Sentiment is also likely to have been positively impacted by recent indicators suggesting the possibility of a near-term improvement in manufacturing and service sector activity. The spread of the Mycoplasma bovis cattle disease across the region and flat house prices are expected to have undermined confidence.

Otago: A net 31% of households in Otago expect the local economy to strengthen over the coming year, slightly up on the 25% recorded in the March quarter. This improvement reflects the impact of record tourism numbers to the province and elevated prices for horticultural, dairy and beef products. Rising house prices in most areas in the region (outside of Queenstown) and increased construction activity in tourism hotspots are also likely to have supported sentiment. As with other affected regions, the spread of the Mycoplasma bovis cattle disease is likely to have weighed heavily on the farming sector.

Southland: Confidence in Southland dropped sharply during the June quarter with a net 13% of households feeling optimistic about how their region will perform over the next 12 months. This is a big drop for a region that continues to experience relatively strong house price growth, rising tourism numbers and a consistently low unemployment rate. Elevated dairy and meat prices and plans to redevelop Invercargill's CBD should also have helped to improve the mood. That said, household sentiment is likely to reflect concerns about the region's capacity to handle expected increases in tourist volumes. Worries about the impact of the Mycoplasma bovis cattle disease, which has now been found on a number of farms in the region, and ongoing uncertainties about how government environmental policy will impact on the agricultural sector in general are also likely to be contributing factors.

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 in eight of eleven regions in the June quarter.

As mentioned in our recently published Bulletin on consumer confidence, this broad-based decline is consistent with other signs that the New Zealand economy is starting to slow, with an expectation that more is to come. Irrespective of the region, more households than before expect economic conditions in New Zealand to deteriorate over the coming 12 months.

Only two regions recorded an improvement in consumer confidence, and in both cases, gains were marginal. In Northland, confidence edged higher with more households feeling financially better off than a year ago, while in the Nelson/Marlborough/West Coast region, consumer confidence improved as households showed a greater willingness to purchase a major ticket item.

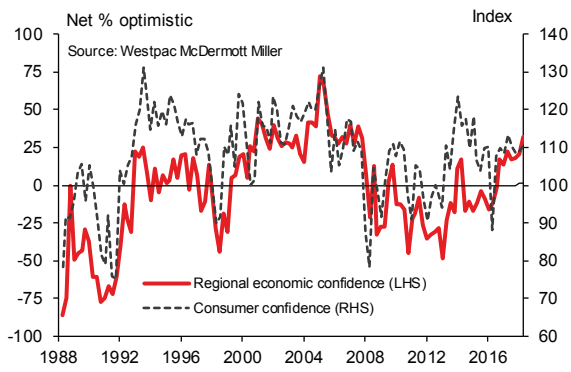
The largest falls in confidence were registered in the South Island. More households in Canterbury, Otago, and Southland, indicated that they did not feel that they were better off than a year ago and/or were not expecting their financial circumstances to improve over the next year. Consistent with this was a lower willingness among households in each of these regions to purchase a major household item.

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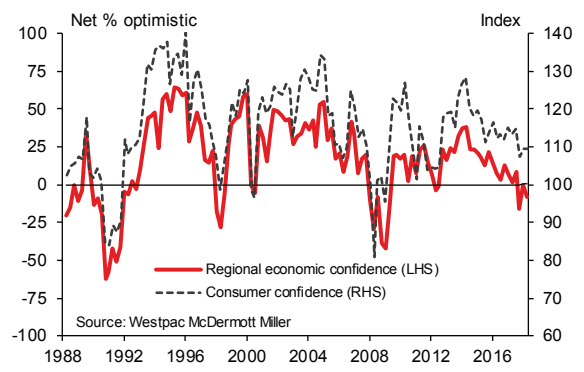
Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Jun-18	Mar-18	Change
Northland	110.2	108.8	1
Auckland	109.4	109.4	0
Waikato	102.8	106.9	-4
Bay of Plenty	112.1	117.6	-6
Gisborne/Hawke's Bay	104.9	106.9	-2
Taranaki/Manawatu-Whanganui	103.0	106.2	-3
Wellington	114.7	115.8	-1
Nelson/Marlborough/West Coast	109.0	108.2	1
Canterbury	106.5	113.5	-7
Otago	109.6	120.8	-11
Southland	105.0	117.0	-12
Nationwide	108.6	111.2	-3

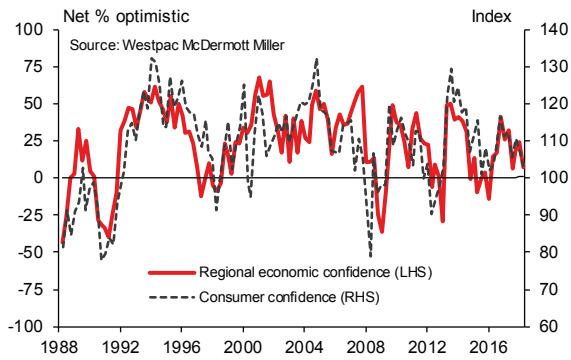
Northland



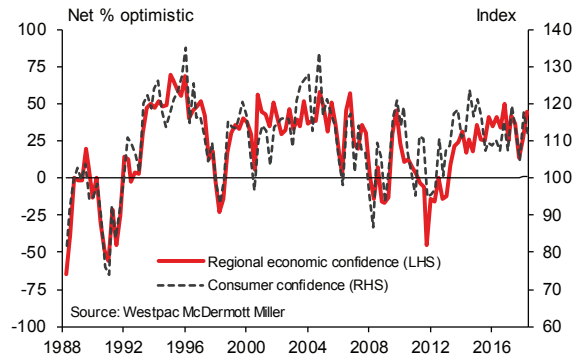
Auckland



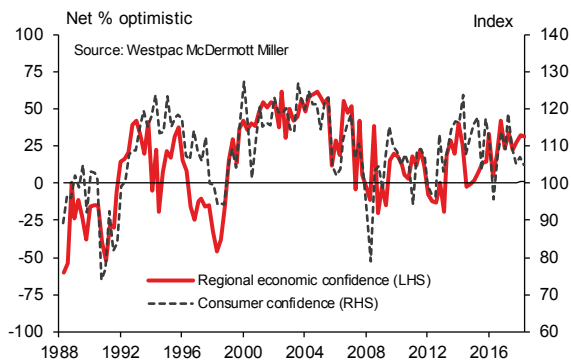
Waikato



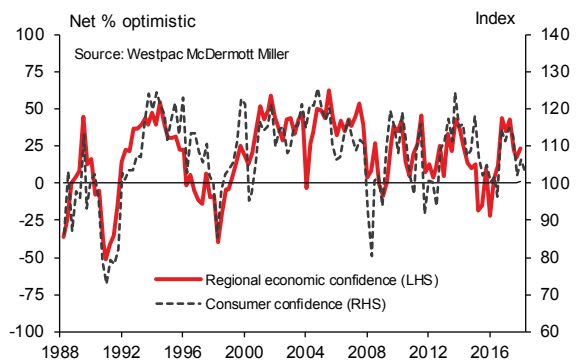
Bay of Plenty



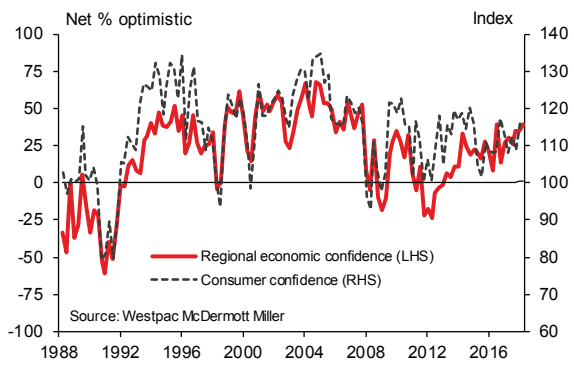
Gisborne/Hawke's Bay



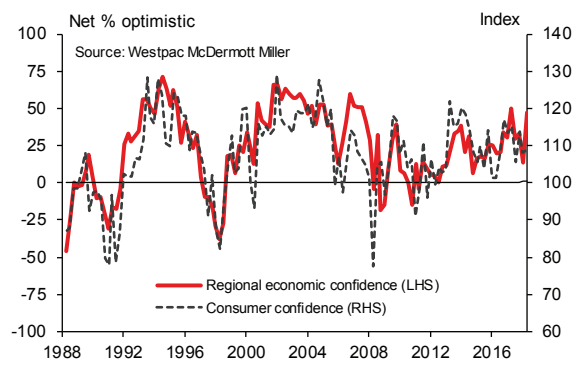
Taranaki/Manawatu-Whanganui



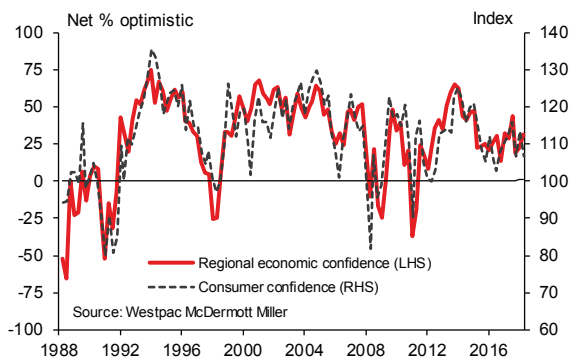
Wellington



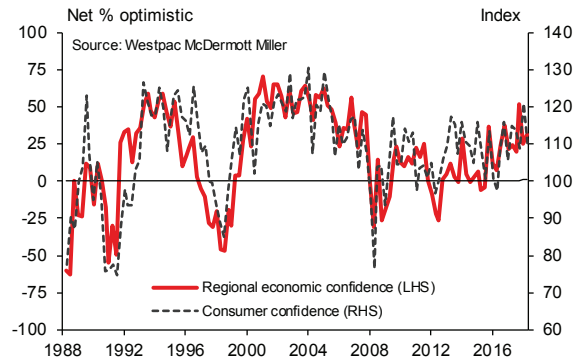
Nelson/Marlborough/West Coast



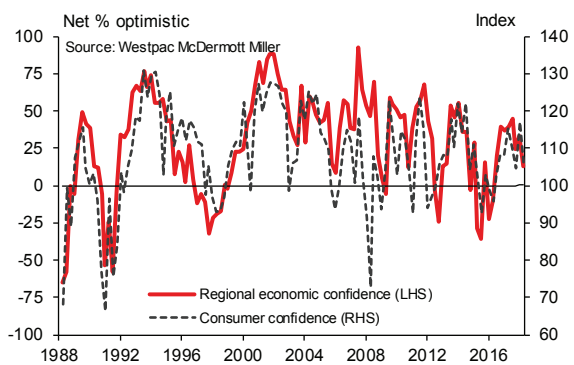
Canterbury



Otago



Southland



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