

# Swings and roundabouts

## Westpac-McDermott Miller Regional Economic Confidence, December 2017 quarter

26 March 2018

- Economic confidence rose in six regions in the December quarter. However, it was down in five regions, and in many cases, the drop in confidence was substantial.
- Households in Auckland were the most negative about their region's economic prospects. Those in Otago were the most optimistic.
- Confidence in some regions dropped sharply with weaker agricultural conditions and unease about government policy across a number of fronts being key drivers.
- Consumer confidence (a measure of households' views of their own economic conditions) fell in nine of eleven regions.

The close of 2017 saw some very different trends in economic confidence across New Zealand. The Westpac-McDermott Miller Regional Economic Confidence survey showed that confidence rose in six regions in the December quarter. However, it was down in five regions, and in many cases, the drop in confidence was substantial.

Auckland stood out, with the number of households who are pessimistic about the region's prospect now outweighing the number of optimists. We also saw confidence decline in the Bay of Plenty, Canterbury and Southland. In contrast, Otago, and the Waikato both saw sizeable lifts in economic confidence.

In Auckland, negativity has been driven by developments in the housing market and concerns about what the new government's policies might mean for it. The impending imposition of a regional fuel tax to fund public transport projects may have also been a contributing factor. By contrast, the decline in Canterbury had more to do with the reorientation of activity, as strong rebuild-related growth in recent years has eased off.

Wellington stands in complete contrast to other major metropolitan areas. The possible expansion of the public sector under the new government is likely to have been a key reason for the increase in economic confidence in the region. However, as with Auckland, the impact of government policy on the housing market is likely to have loomed large.

Households in most rural regions were slightly more optimistic about their region's economic performance than in the previous quarter, helped in part by rising horticultural and viticulture prices. Tourism also made a contribution in some rural areas, while construction activity was strong in others.

A number of rural regions that have been among the most optimistic in the country experienced a significant drop in confidence in the December quarter. In the Bay of Plenty, for example, a large number of households who had previously indicated that they felt quite positive about the future downgraded their expectations this quarter. In Southland, weaker dairy and lamb prices and a much publicised drought contributed to sharply lower confidence levels.

### Regional economic confidence\*

Region	Net Confidence (%)		
	Dec-17	Sep-17	Change
Northland	18	17	1
Auckland	-16	8	-24
Waikato	18	6	12
Bay of Plenty	13	37	-23
Gisborne/Hawke's Bay	27	23	5
Taranaki/Manawatu-Whanganui	17	23	-5
Wellington	35	26	8
Nelson/Marlborough/West Coast	33	30	3
Canterbury	19	44	-25
Otago	52	20	32
Southland	24	45	-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 1-10 December 2017, with a total sample size of 1555.

## Regional Discussion

**Northland:** Economic confidence in Northland edged slightly higher in the December quarter with a net 18% of respondents expecting better times ahead for the region. Falling unemployment and reasonably strong performances from the construction, manufacturing and tourism sectors are likely to have contributed to this slightly better outlook. The agricultural and forestry sectors also performed well, although a recent easing in lamb, beef, dairy and logs prices may have already started to affect confidence in the region. Confidence is also likely to have been dampened by a growing sense of unease about how future government policy might impact the agricultural sector.

**Auckland:** Households in Auckland are the most pessimistic in the New Zealand, with a net 16% expecting the regional economy to worsen over the next 12 months. This gloomy outlook reflects the impact of a cooling housing market and ongoing concerns about Auckland's transport system, not helped by the pending introduction of a 10c per litre regional fuel tax. Concerns about how policy changes will affect the housing market are also likely to have reinforced this negative outlook. The likely impact of this is a slowdown in spending, which will have a ripple effect through the New Zealand economy as a whole.

**Waikato:** Confidence partly recovered in the December quarter with a net 18% of households in the region expecting the regional economy to improve over the next 12 months. Lower unemployment and increases in construction are likely to have supported sentiment, although the extent of any gains will have been hampered by softer prices for beef and dairy. Confidence in the region's economic prospects is also likely to have been affected by growing concerns about how future government policy might impact on the agricultural sector.

**Bay of Plenty:** Confidence fell by 23% in the December quarter, with only a net 13% of households now expecting the region's economy to improve over the next 12 months. This is a significant drop for a region that over the past few years has been among the most optimistic in the country. The slowdown in the housing market is likely to be a key factor weighing on confidence. So too, a recent softening in dairy prices, although higher kiwifruit and avocado prices, together with stronger construction activity, will have supported confidence in the region. Unease over government policy and the impact that this might have on agriculture should also be added to the mix.

**Gisborne/Hawke's Bay:** A net 27% of households in Gisborne and the Hawke's Bay indicated that they are positive about the region's economy over the next 12 months. This is slightly better than the 23% recorded for the September quarter, but still down on the 33% posted in the June quarter. This partial recovery is likely to have been helped by growth in tourism, stronger construction activity, and rising horticultural and viticulture prices, although gains here will have been eroded by a recent weakening in meat and dairy prices. Increasing unemployment, slowing house sales and a growing sense of unease about what government policy might mean for the agricultural

sector are likely to be key considerations for those that are pessimistic about the region's prospects.

**Taranaki/Manawatu-Whanganui:** A net 17% of households in the region expect the local economy to strengthen over the coming year, down from the 23% recorded in the September quarter. While supported by rising crude oil prices and firmer horticultural prices, confidence in the region is likely to have been eroded by a recent softening in dairy and meat prices, as well as concerns about what government policy might mean for the agricultural sector. Rising unemployment in the region is also likely to have been a contributing factor to a lower reading, and this is likely to translate into slower spending growth over coming quarters.

**Wellington:** In contrast to major centres, households in Wellington have become increasingly confident about the economic outlook, with a net 35% expecting better conditions over the next year. The region is now the second most optimistic in the country. Among the factors likely to have contributed to this more positive outlook is the possible expansion of public sector activity in the region as a result of the change in government. A declining unemployment rate, increasing construction activity, and still rising house prices are also likely to have bolstered confidence levels in the capital.

**Nelson/Marlborough/West Coast:** Confidence in the region's economic prospects rose from 30% to 33% in the December quarter. This slight improvement in confidence largely reflects the performance of the tourist and construction sectors, as well as favourable operating conditions in the wine and horticultural industries.

**Canterbury:** Confidence in Canterbury dropped sharply in the December quarter, with only a net 19% of households now optimistic about the region's economic performance over the next 12 months (compared to 44% in September). To a large extent, this is due to the ongoing structural changes in the region. Construction activity has been winding down, and activity is rotating back to the manufacturing and services sectors. Activity in these sectors has grown consistently since 2013, but there are signs that growth is starting to slow, suggesting the possibility of leaner times ahead. The potential implications of government policy for agriculture have also weighed heavily on confidence levels.

**Otago:** A net 52% of Otago households expect the region's economy to improve over the next 12 months, making it by far the most optimistic region in the country. Confidence rose sharply in late-2017, supported by record tourism numbers and higher horticultural prices. Increasing construction sector activity, low unemployment and still strong house price growth are also likely to have contributed to the more optimistic outlook. Recent dry weather conditions in the region do not seem to have dented economic confidence in the region, but this could change as impacts on agricultural production become more evident.

**Southland:** Confidence in Southland's economic prospects fell sharply, dropping from 45% in September to 25% in

December. This is a big drop for a region that has often been one of the most optimistic in the country. The decline can partly be explained by the recent softening in dairy and lamb prices and a growing sense of unease about what government policy might mean for agriculture in the region. The potential impact of recent dry weather in the region on agricultural production and hydroelectric generation is also a key consideration.

### Consumer confidence: regional breakdown

Region	Consumer confidence index		
	Dec-17	Sep-17	Change
Northland	108.4	110.2	-2
Auckland	107.5	114.6	-7
Waikato	110.5	105.6	5
Bay of Plenty	104.9	112.5	-8
Gisborne/Hawke's Bay	105.1	109.6	-5
Taranaki/Manawatu-Whanganui	102.0	112.7	-11
Wellington	108.9	112.3	-3
Nelson/Marlborough/West Coast	113.9	105.5	8
Canterbury	106.5	115.9	-9
Otago	108.6	113.6	-5
Southland	104.6	110.3	-6
Nationwide	107.4	112.4	-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) declined across nine of eleven regions in the December quarter.

As discussed in our recent bulletin on the Consumer Confidence Index, the drop in confidence appears partly to be a response to the change in government. Slowing economic conditions are also likely to have affected confidence levels, especially in regions dependent on primary sector activity.

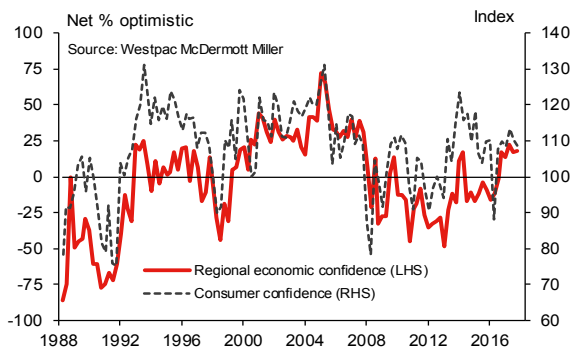
The fall in consumer confidence in Auckland and Wellington reflects concerns about the housing market and new government policies that might affect it, while in Canterbury, the ongoing rebalancing of economic activity is likely to be a key consideration.

Households in the Waikato and the Nelson/Marlborough/West Coast regions were the only ones expecting an improvement in their financial circumstances over the coming year, much in line with expectations they have for their region's economic prospects.

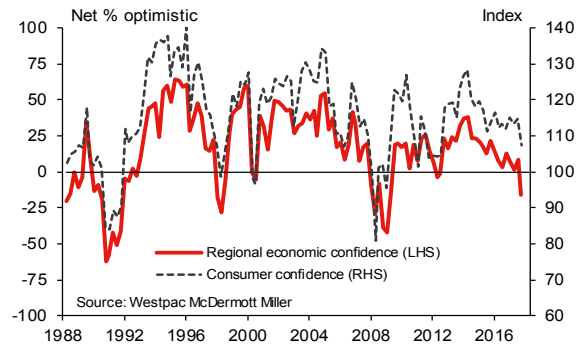
#### Paul Clark

Industry Economist

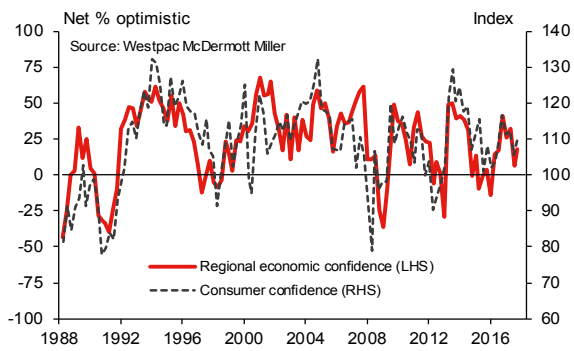
### Northland



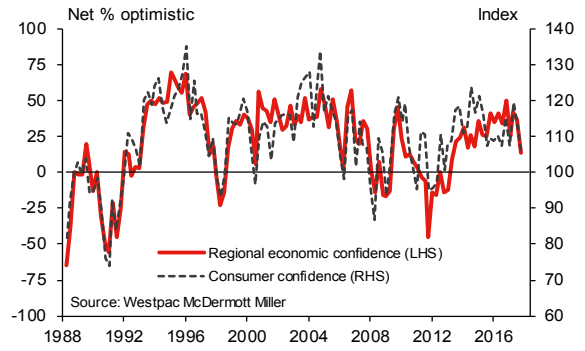
### Auckland



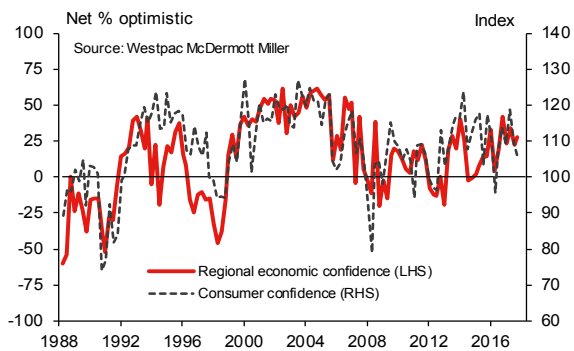
### Waikato



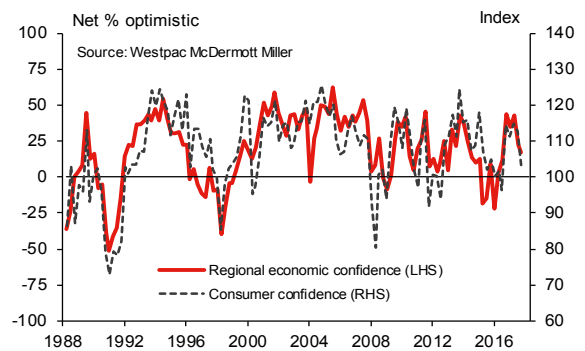
### Bay of Plenty



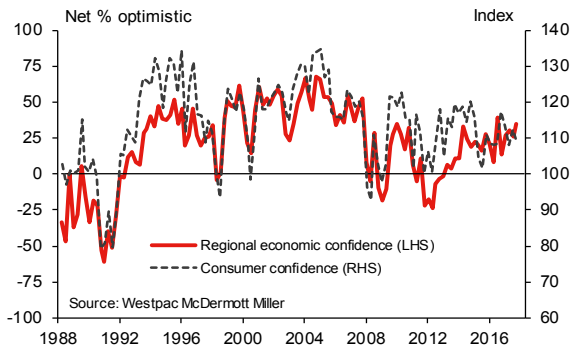
### Gisborne/Hawke's Bay



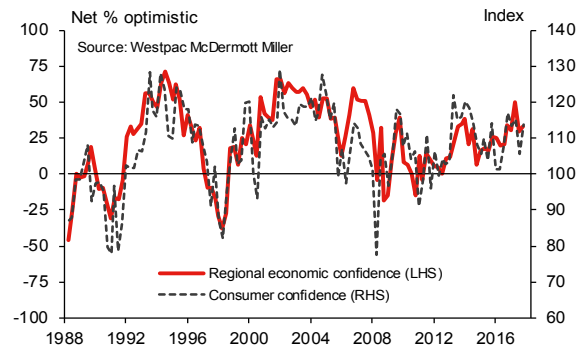
### Taranaki/Manawatu-Whanganui



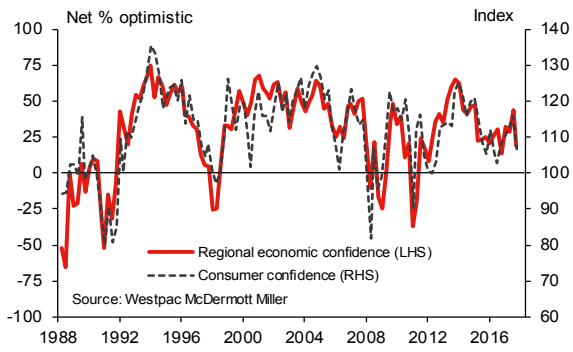
### Wellington



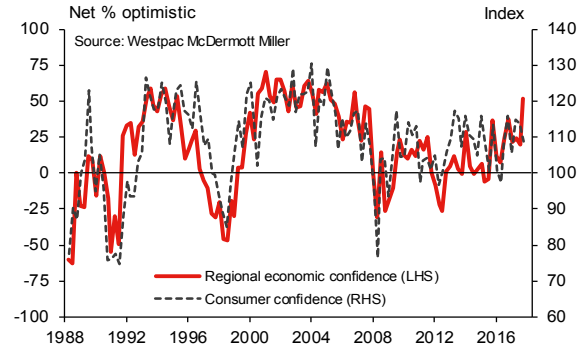
### Nelson/Marlborough/West Coast



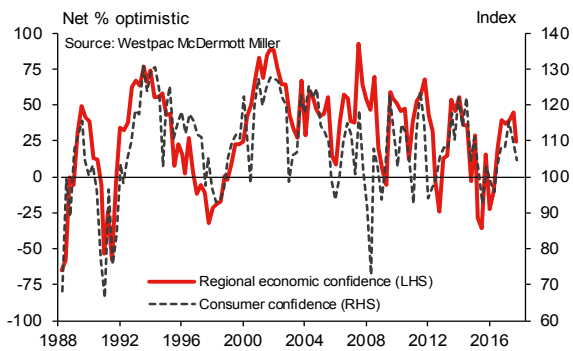
### Canterbury



### 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](mailto:economics@westpac.co.nz)

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

---

## Disclaimer

---

### Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

### Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

### Country disclosures

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

**New Zealand:** In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product

or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz). For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at [www.westpac.co.nz](http://www.westpac.co.nz).

**China, Hong Kong, Singapore and India:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**UK:** The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by

---

# Disclaimer continued

---

the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

## Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

**U.S.:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.