August 2018

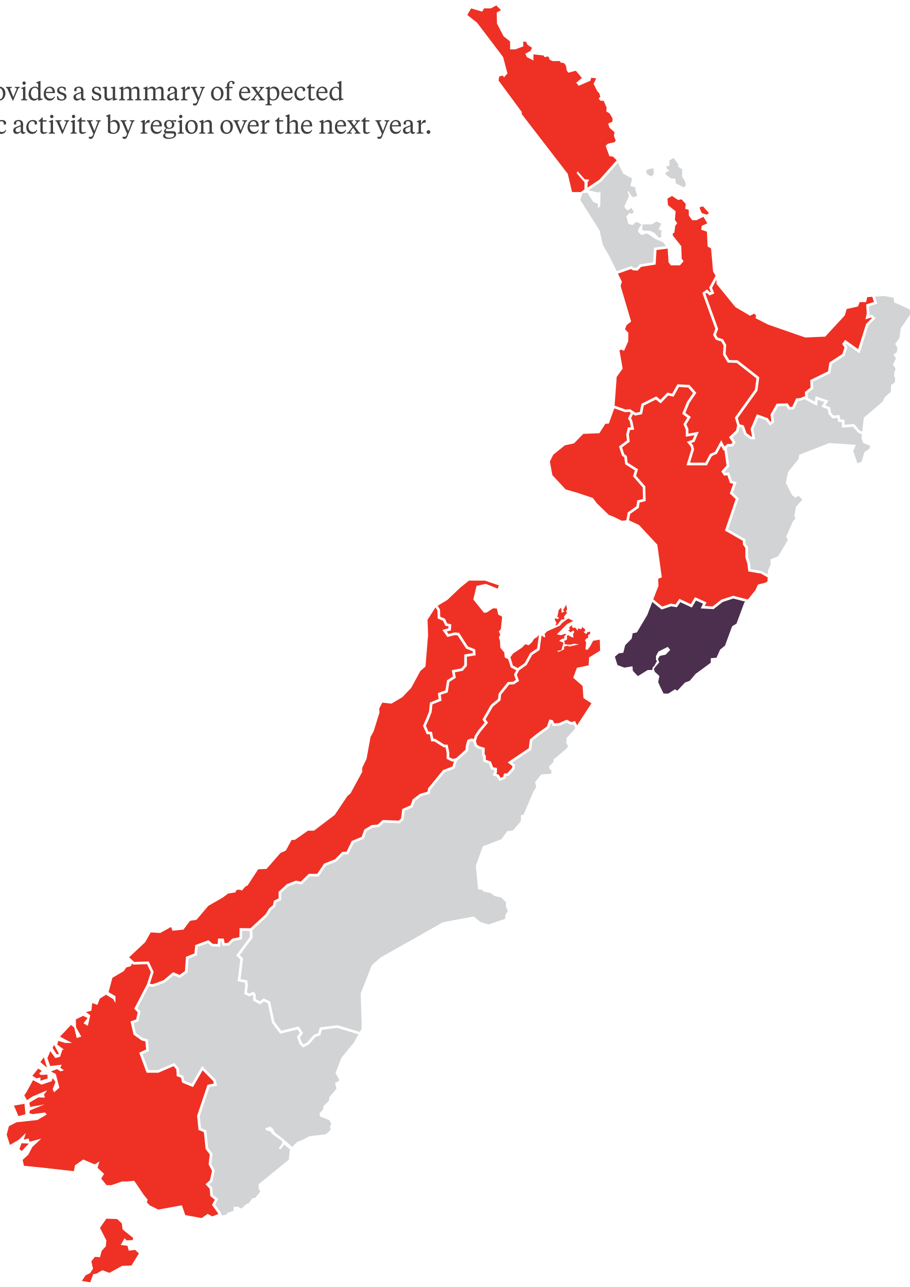
Regional Roundup

12-month regional outlook

This shaded map provides a summary of expected changes in economic activity by region over the next year.

Regional outlook

- Stronger
- Weaker



REGIONAL ROUNDUP

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Summary

The factors driving economic growth in New Zealand are changing. Those that have underpinned activity previously, such as net inward migration, rising house prices and construction activity, have started to dissipate while new ones, such as increased social payments by Government, have come to the fore. Merchandise exports and tourist arrivals have been strong throughout.

These factors have impacted each of the regions differently. In general, activity levels in the major metropolitan regions have been more subdued than those in most rural regions. And despite an overall deterioration in economic activity, this remains the case.

Rural regions have benefited from elevated commodity prices, improved weather conditions and a slightly weaker New Zealand dollar. Higher production volumes for most will have lifted farmgate incomes and household spending. There were, of course, exceptions. Production levels in the Gisborne region, for example, were affected by two major storms, damaging infrastructure and farmlands alike.

Most regions have benefited from an increase in tourist arrivals. Tourism grew in Otago and Southland as well as in less traditional tourist destinations, such as the Waikato and Wellington. Some regions, such as Nelson/Marlborough/West Coast and Gisborne/Hawkes Bay, experienced a small drop in tourist arrivals. There is also some evidence to suggest that capacity constraints have put off some potential visitors, particularly to Northland, Gisborne/Hawkes Bay and Otago.

Most regions have experienced slower house price growth, with Auckland and Canterbury being particularly weak. In general, house prices in metropolitan centres continue to grow more slowly than those in rural regions. The exception was Taranaki/Manawatu-Whanganui, which saw an acceleration in prices. Gisborne/Hawkes Bay and Otago were also standouts, posting double-digit growth, while Wellington outperformed its large metropolitan counterparts.

Looking forward, activity in most regions should improve in the short-term but weaken thereafter. Activity in Canterbury and Auckland is likely to be weaker than in most other regions.

Rural regions should continue to experience elevated export earnings as a weaker New Zealand dollar offsets lower commodity prices. Rural sentiment will, however, continue to be affected by the Mycoplasma bovis cattle disease.

Most regions should benefit from an increase in tourism. Traditional tourist areas, in particular, should continue to prosper but are likely to struggle with capacity constraints at peak times. The addition of new short stay accommodation is likely to help but more is going to be needed.

All regions should benefit from increased social payments made by Government. Some, such as Wellington, are likely to get an additional boost from Government ramping up its own spending, while activity in some smaller rural regions should be supported by investment out of the Provincial Growth Fund.

But housing markets, and consequently household spending, should slow. This is likely to be more noticeable in Auckland where an impending ban on foreign buyers should have the biggest influence. It's also likely to be evident in Taranaki/Manawatu-Whanganui, Gisborne. Hawkes Bay, Otago and Southland where house prices have risen rapidly and the impacts of a slowdown have yet to be felt.

Understanding the regional pages

The report examines each region's performances in the latest quarter compared with the previous quarter and the five-year average across a set of indicators.

A net score is included for each comparison period. A score greater than zero means more indicators have improved in the latest quarter than in the period of comparison. A score below zero means that results in the latest quarter have, on aggregate been weaker than in the time period of comparison.

This assessment provides the basis for the analysis and discussion on the outlook for the next couple of years. The outlook in turn is also influenced by forecasts produced in a number of other publications, not least of which is the quarterly economic outlook which can be accessed at: *https://www.westpac.co.nz/wib/economic-updates/economic-research-and-strategy/*

Auckland

Economic activity in Auckland has fallen slightly in the latest quarter. In contrast to most other regions, activity levels are only slightly above the five year average. A softer outlook will have wider repercussions for the New Zealand economy.

		Compared to	
Auckland	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	-8.0	-0.4	14.0
Regional employment confidence	122.0	118.7	111.5
Unemployment rate (s.a.)	4.3%	4.1%	5.3%
Retail sales ($m, s.a.)	8,521	8,459	7,495
Passenger vehicle regos (s.a.)	29,622	31,979	28,771
Commercial vehicle regos (s.a.)	5,916	6,375	5,138
Guest nights (000, s.a.)	1,840	1,816	1,872
New dwellings consented (s.a.)	3,808	3,069	2,382
House sales (s.a.)	5,549	5,804	6,952
House price change, annual (s.a.)	0.8%	1.0%	10.5%
Net number of indicators rising compared to previous quarter			-2
Net number of indicators rising compared to 5 year average			2

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

The Auckland economy continues to grow, but at a slowing pace.

This is reflected in retail sales which had previously grown on the back of strong population gains, low unemployment and improved levels of employment confidence among households. However, in recent quarters they have slowed markedly, re-affirming an overall softening in economic conditions.

Tourism has proved to be a highlight, with guest nights continuing to increase. However, much like retail sales, gains have been moderating for some time, in part because of a shortage of short-stay accommodation across the region.

That said, hotel construction has been gearing up with a number of new hotels either in the process of being constructed or about to be. Consents for residential buildings, particularly medium-density housing, have risen sharply, pointing to the possibility of stronger activity in the near future. Standalone housing consents have also risen, but the pace of growth has been more measured, mainly due to tighter operating conditions in developer markets.

By contrast, the housing market in Auckland has softened because of government policy targeting investment in housing. This includes the recent extension of the "bright line" test from 2 to 5 years, the soon to be implemented foreign buyer ban and the expected removal of negative gearing in April next year.

The performance of the housing market is likely to be a major reason why there has been a lack of confidence in the region's economic prospects, which are by far the lowest in the country. But it's not the only one. The introduction of the 11.5c per litre regional fuel tax to address the region's transport woes was not met with overwhelming approval. Rising petrol prices at the pump, helped along by a weaker New Zealand dollar and elevated US crude oil prices are unlikely to have improved matters.

The outlook for the region

Activity in Auckland should improve in the short-term but weaken thereafter as household spending slows. It is also likely to remain more subdued than in other regions.

Household spending is likely reflect falling house prices and an expected slowdown in net migration to the region. In the short-term, however, there could be a bit of a boost to consumer spending because of increased social payments by Government to low income families, superannuitants, students and the unemployed.

Construction activity is expected to be driven by well publicised shortages. A recent spate of indicators suggests that the construction of medium density housing should accelerate, although construction more generally is likely to be stable at a high level.

An increase in the number of tourists visiting the region may also offer some positivity. Although historically the gateway to other regions, Auckland is increasingly a tourist destination in its own right. A weaker New Zealand dollar and an increase in short-stay capacity is likely to support volumes going forward.

Bay of Plenty

The Bay of Plenty is the best performing region in the country. Activity levels are significantly higher than in the previous quarter, are slightly better than in the same quarter last year, and are well up on the five year average.

Bay of Plenty	Latest Quarter	Compared to Previous Quarter	Compared to 5 Year Average
Regional economic confidence	44.6	27.0	30.7
Regional employment confidence	115.6	122.6	106.7
Unemployment rate (s.a.)	4.8%	5.2%	5.9%
Retail sales ($m, s.a.)	1,446	1,431	1,267
Passenger vehicle regos (s.a.)	3,590	3,562	3,099
Commercial vehicle regos (s.a.)	1,057	1,040	840
Guest nights (000, s.a.)	980	984	927
New dwellings consented (s.a.)	537	511	500
House sales (s.a.) *	1,403	1,358	1,456
House price change, annual (s.a.)	3.8%	6.4%	10.1%
Net number of indicators rising compared to previous quarter			5
Net number of indicators rising compared to 5 year average			6

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV
* House sales data includes Bay of Plenty and Waikato

Activity has been buoyed by a bumper kiwifruit and avocado season, helped along by still elevated prices for forestry and dairy products. Non-residential construction activity has also been strong, with significant projects underway in the Tauranga CBD, while the port continues to handle ever larger volumes. Business is booming as firms set up shop and the region has experienced strong interest from national and international companies looking at the possibility of establishing a presence in the region.

Tourism arrivals have effectively flat-lined, mainly because of a drop in domestic tourist arrivals which have offset an increase in foreign visitors. Spending by international visitors to the region was also higher during the quarter, and this is likely to have supported retail sales.

House prices have also risen, mainly because more people have moved to the region, attracted by growing employment opportunities and lifestyle possibilities. Interest has also been high from investors eager to get ahead of the foreign buyer ban. That said, the pace of growth has started to slow, especially in Tauranga which boasts several suburbs where median prices are around the $1m mark.

However, while the region is booming it is also experiencing some growing pains. Among those are labour shortages, particularly in the kiwifruit industry which depends on low skilled workers to pick fruit. A decrease in the number of international students and a relatively low unemployment rate are likely to have been key contributors.

These pains are not just limited to the horticulture sector. Disruptions caused by the construction of new buildings in the Tauranga CBD, for example, have resulted in a loss of foot traffic, adversely affecting retailers in the area. Similarly, tourism operators in Tauranga are concerned about the ability of the city to handle more foreign tourists arriving on cruise ships and have proposed that the Provincial Growth Fund be used to improve supporting infrastructure.

The outlook for the region

Activity in the Bay of Plenty should improve in the short-term but weaken thereafter as household spending slows.

Household spending in the region is likely to reflect the impact of slowing house prices. In the short-term, however, there could be a bit of a boost to consumer spending because of increased social payments by Government to low income families, superannuitants, students and the unemployed.

Exports are likely to support activity in the region, with a weaker New Zealand dollar likely to offset an expected softening in prices for horticulture and forestry products. Dairy payouts are expected to remain at about $6.50, which is cashflow positive for most farmers.

The weaker exchange rate should also help to boost spending from foreign tourist arrivals, which are likely to increase because of additional visits from cruise liners. Optimism about what the future might hold is likely to have been bolstered by Tauranga recently being rated the fifth top cruise destination in Australasia in the 2018 Cruise Critic Cruisers' Choice Award.

Canterbury

Activity levels in Canterbury have improved following a contraction in the previous quarter and they are also higher than in the same quarter last year. That said, there are signs of a slowdown in some key sectors, which suggests weaker activity ahead.

		Compared to	
Canterbury	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	31.1	22.5	35.2
Regional employment confidence	115.6	107.3	112.9
Unemployment rate (s.a.)	4.1%	3.7%	3.4%
Retail sales ($m, s.a.)	3,067	3,024	2,823
Passenger vehicle regos (s.a.)	9,283	9,760	9,057
Commercial vehicle regos (s.a.)	1,948	1,734	1,699
Guest nights (000, s.a.)	1,384	1,324	1,284
New dwellings consented (s.a.)	1,258	1,201	1,515
House sales (s.a.)	2,529	2,579	2,598
House price change, annual (s.a.)	0.4%	0.4%	3.3%
Net number of indicators rising compared to previous quarter			4
Net number of indicators rising compared to 5 year average			0

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

The improvement in regional activity reflects a buoyant hospitality and tourism sector and higher commodity prices, all of which will have helped to boost sentiment.

Tourism has been a key driver of activity, underpinned by growth in foreign arrivals, an increase in hotel capacity in Christchurch, and a broadening of the tourist season. Hotel capacity, which is now at pre-earthquake levels, and as occupancy rates, continue to show a positive upward trend.

The agricultural sector has also performed well with export earnings having benefitted from elevated dairy and meat prices as well as a slightly weaker New Zealand dollar. However, this comes against the backdrop of efforts to eradicate the Mycoplasma bovis cattle disease, which is likely to have increased anxiety levels among affected farmers.

However, this hasn't been enough to dampen confidence in the region's economic prospects. Indeed, confidence in the regional economy and the prospects for employment have improved. This could reflect the impact of earlier indicators pointing to robust manufacturing and service activity in the region. More recent data, however, suggests that activity in these sectors might not be as strong as previously thought, raising the possibility of a drop in confidence in coming quarters.

So too, construction activity in the region. As the rebuild has progressed, not only has construction activity declined, but the mix of work undertaken has changed. Non-residential work, such as that on the recently opened hospitality complex, The Terrace, and Christchurch's biggest retail development, The Crossing, now account for most construction activity in the region. This change has created some vulnerabilities, resulting in a growing sense of uncertainty about the financial viability of some planned commercial projects.

House prices have effectively flat-lined. In part this reflects the impact of the post-quake rebuild on the supply of houses. It also reflects the impact of sluggish population growth, evidenced in part by a slowdown in net migration.

The outlook for the region

Activity in Canterbury is likely to remain weak for some time as weaker construction activity and household spending offsets growth in exports and tourism.

Household spending in the region is likely to reflect continued weakness in house prices, and to some extent, a slowdown in net migration. In the short-term, however, there could be a bit of a boost to consumer spending from increased social payments by Government to low income families, superannuitants, students and the unemployed.

Export earnings should remain elevated for some time to come as a weaker New Zealand dollar offsets an expected softening in prices for meat prices. Dairy and wool prices are expected to remain at current levels and so earnings are likely to reflect the full impact of currency weakness.

The weaker exchange rate should also help to boost earnings generated from foreign tourist arrivals, especially to the largely rebuilt Christchurch city centre. News that Christchurch is to build a covered stadium is likely to add to the region's appeal. So too, confirmation that work has begun on constructing an international cruise ship wharf capable of hosting the world's largest cruise liners at Lyttleton port.

Gisborne/Hawke's Bay

Activity levels in Gisborne and the Hawke's Bay region have weakened when compared to the previous quarter. That said, activity is a bit higher than the same period last year, and well up on the five year average.

		Compared to	
Gisborne/Hawke's Bay	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	31.0	31.8	20.9
Regional employment confidence	114.0	109.7	103.3
Unemployment rate (s.a.)	5.2%	4.7%	6.9%
Retail sales ($m, s.a.)	875	872	778
Passenger vehicle regos (s.a.)	1,884	1,818	1,600
Commercial vehicle regos (s.a.)	600	613	520
Guest nights (000, s.a.)	342	392	348
New dwellings consented (s.a.)	162	192	134
House sales (s.a.)	936	867	813
House price change, annual (s.a.)	11.4%	15.3%	8.5%
Net number of indicators rising compared to previous quarter			-3
Net number of indicators rising compared to 5 year average			8

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

The region's primary sector continues to be supported by elevated prices for horticulture, viticulture, agriculture (sheep, beef and dairy) and forestry products.

However, primary sector production may have been temporarily affected by two major storm events which slammed into the Tolaga Bay area in early June. The area's infrastructure and plantation forests were damaged by these events, with forestry debris washing up over farmland and damaging bridges.

After a period of sustained growth, tourism to the region has declined, with guest nights moving sharply lower. Most of this was due to a fall in domestic guest nights. International guest nights also fell, but from a much lower level.

Residential building activity has also slowed, with consents sharply down on the previous quarter. In part this reflects a limited availability of finance and a shortage of skills, most of which will have been diverted to support the re-development of commercial properties, particularly in Napier and Hastings.

On a seasonally adjusted basis, the rate of unemployment has ratcheted up, suggesting that the labour market is not quite as strong as indicated by underlying data. This could be because of the slowdown in tourism, as well as changes in the nature of construction activity in the region. The number of people employed was slightly lower in the quarter, but still remains high and this might explain why households are reporting that jobs are still available.

House prices continue to outperform, growing at double-digit figures, the highest in the country. Despite signs of a slowdown, the region continues to experience a net inward migration of people from the big metropolitan areas who, by all accounts, are looking for a change in lifestyle at a more affordable price. Entry level properties are also selling well with interest coming from first home buyers and investors. Not surprisingly, house sales have increased as a result.

The outlook for the region

Activity in the Gisborne/Hawkes Bay region should improve in the short-term but moderate thereafter as a slowdown in household spending offsets the positive impact of increased investment.

Household spending in the region is likely to reflect slowing house prices, which could be significant given how they have been growing in recent quarters. In the short-term, however, there could be a bit of a boost to consumer spending from increased social payments by Government to low income families, superannuitants, students and the unemployed.

Exports are likely to support activity in the region, with a weaker New Zealand dollar likely to offset an expected softening in prices for horticultural, agriculture and forestry products.

The weaker exchange rate should also help to boost earnings from tourist arrivals, which are expected to increase following a decision by the Hawkes Bay Regional Council to continue funding efforts to market the region as a tourism destination.

Investment in infrastructure from the Provincial Growth Fund is also likely to support tourism numbers, although beneficial impacts are likely to be of a long-term nature. Over and above already committed projects, funding is likely be sought for the restoration of the Gisborne to Napier rail line, a new terminal for Gisborne airport and the possible development of a food innovation hub in the Hawkes Bay.

Nelson/Marlborough/West Coast

Activity in the top of the South Island has fallen for a second consecutive quarter, although the magnitude of the decline has been small. Activity levels are about the same as those in the corresponding period last year and only slightly above the five year average.

		Compared to	
Nelson/Marlborough/West Coast	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	47.2	13.4	27.1
Regional employment confidence	117.9	107.2	106.4
Unemployment rate (s.a.)	4.4%	3.6%	4.1%
Retail sales ($m, s.a.)	873	875	795
Passenger vehicle regos (s.a.)	1,702	1,748	1,500
Tractor regos (s.a.)	50	49	51
Guest nights (000, s.a.)	883	959	883
New dwellings consented (s.a.)	277	280	226
House sales (s.a.)	844	849	803
House price change, annual (s.a.)	5.5%	7.6%	6.2%
Net number of indicators rising compared to previous quarter			-3
Net number of indicators rising compared to 5 year average			3

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Primary sector activity has improved since extreme storm events earlier in the year left a trail of destruction across the region, damaging horticulture and forestry businesses. Activity has been supported by increased apple production, while forestry and dairy farmers have benefited from elevated prices. The seafood sector operating in the Marlborough region has also benefitted from the performance of a slightly weaker New Zealand dollar as well as increased demand in key export markets.

Despite seasonal labour shortages affecting the horticultural sector, unemployment rose for a second consecutive quarter and now sits just below the national average. In part this can be attributed to softer residential construction activity. Growth in residential building consents, which had trended higher in recent years, has begun to ease in the Marlborough and the West Coast regions. The opposite is true in Nelson, where consents have picked up slightly.

Tourism in the Nelson and Marlborough regions is sharply down on previous quarters. By contrast, tourist arrivals to the West Coast, presumably less impacted by weather events earlier in the year, have continued to grow, albeit at a slowing rate. Retail sales have flat-lined, in part because tourist arrivals have slowed, but also because of higher rates of unemployment, which are likely to have affected the registration of new passenger vehicles.

House prices continue to grow, but as for most regions, the pace of growth has slowed. Despite this, Nelson has been a standout, posting record median prices that put it among the most expensive in the country.

The outlook for the region

Activity in this region should improve in the short-term from a low base, but moderate thereafter as a slowdown in household spending offsets the positive impact of increased investment.

Household spending in the region is likely to reflect slowing house prices. In the short-term, however, there could be a bit of a boost to consumer spending from increased social payments by Government to low income families, superannuitants, students and the unemployed.

Exports of agriculture, forestry, horticulture and aquaculture products are likely to support activity in the region with a weaker New Zealand dollar likely to offset an expected softening in commodity prices.

The weaker exchange rate is also likely to encourage more visitors to the region, although funding issues could derail efforts to attract visitors to the West Coast. That said, the West Coast has received funding from the Provincial Growth Fund to assess the viability of upgrades to the Westport and Greymouth ports, and help Kiwirail explore options for a scenic rail service between Hokitika and Westport. The return of the Coastal Pacific service between Picton and Christchurch this December should further support tourism growth in the region.

Northland

Activity levels in Northland fell in the latest quarter. They are about the same as they were during the same quarter last year, but are significantly improved on the five year average.

		Compared to	
Northland	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	32.0	21.0	2.1
Regional employment confidence	119.4	111.4	104.6
Unemployment rate (s.a.)	4.6%	5.4%	7.5%
Retail sales ($m, s.a.)	701	692	621
Passenger vehicle regos (s.a.)	1,434	1,489	1,292
Commercial vehicle regos (s.a.)	548	583	457
Guest nights (000, s.a.)	480	488	467
New dwellings consented (s.a.)	319	321	249
House sales (s.a.)	600	651	644
House price change, annual (s.a.)	4.2%	9.4%	8.6%
Net number of indicators rising compared to previous quarter			-2
Net number of indicators rising compared to 5 year average			6

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Like many other rural regions, Northland's economy continues to benefit from higher export earnings for meat, dairy, forestry and horticultural products.

Conducive conditions in these sectors, coupled with increased attention from Government, are likely to have made households more optimistic about the region's economic prospects. However, news that the Government will not be four-laning State Highway 1 between Puhoi and Whangarei will not have gone down well, especially with businesses that view the link as key to the region's economic prosperity.

Confidence will have received an extra boost from an improving labour market. The rate of unemployment has more than halved over the past two years, underpinned by job creation in the agricultural, tourism, and construction sectors. Households are also reporting that jobs are freely available and they feel pretty upbeat about their earnings prospects going forward.

Tourism to the region has fallen, but only slightly. Most of this is because of a decrease in the number of international tourist arrivals, which is likely to have dampened retail sales.

House prices have risen, but the pace of growth has halved as the contagion effects from Auckland's slowdown have set in. The Government has also begun to implement policies targeting the housing market. The number of houses being sold is also down as interest from Aucklanders begins to wane. This may help to explain why new vehicle registrations have weakened following a period of relatively strong growth.

The outlook for the region

Activity in Northland should improve in the short-term but moderate thereafter as a slowdown in household spending offsets the positive impact of increased investment in the region.

Household spending in the region is likely to reflect slowing house prices. In the short-term, however, there could be a bit of a boost to consumer spending from increased social payments by Government to low income families, superannuitants, students and the unemployed.

Exports of agriculture, forestry and horticulture products are likely to support activity in the region with a weaker New Zealand dollar likely to offset an expected softening in most commodity prices.

The weaker exchange rate is also likely to encourage more visitors to the region, although gains are likely to be limited by well publicised infrastructure constraints. Investment from the Provincial Growth Fund to address these constraints is only likely to make a significant difference in the long-term.

Otago

Activity levels in Otago edged down in the current quarter, but are still higher than in the same period last year and significantly better than the five year average.

Otago		Compared to	
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	31.0	24.8	16.2
Regional employment confidence	110.4	121.8	104.1
Unemployment rate (s.a.)	3.1%	4.6%	4.1%
Retail sales ($m, s.a.)	1,297	1,299	1,159
Passenger vehicle regos (s.a.)	2,041	2,150	1,885
Commercial vehicle regos (s.a.)	757	641	584
Guest nights (000, s.a.)	1,541	1,495	1,450
New dwellings consented (s.a.)	482	487	415
House sales (s.a.)	1,089	1,154	1,164
House price change, annual (s.a.)	9.5%	10.4%	10.3%
Net number of indicators rising compared to previous quarter			-1
Net number of indicators rising compared to 5 year average			6

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

The agricultural, horticultural and viticulture sectors are back on track after widespread drought conditions in the early part of the year disrupted production in the region. Still elevated commodity prices and a weaker New Zealand dollar have helped to boost export earnings, while slightly warmer weather earlier in the year has supported the production of grapes and wine.

Confidence in the region's economic future has improved. In part this reflects the impact of a bumper tourism season and a sense of relief that the region was able to handle an increase in tourist volumes. In this regard, the two-laning of the Kawarau Falls Bridge, allowing easier access into Queenstown, will have been welcomed. However, the possible introduction of a "bed tax" to fund infrastructure to cater for larger tourism volumes remains a bone of contention between the Queenstown Lake District Council and accommodation providers in the region that are firmly against the idea.

The announcement by Government that it will fund a feasibility study into the development of the Dunedin waterfront from the Provincial Growth Fund will have come as welcome news for the provincial capital. The vision for a waterfront project includes a hotel and residential accommodation, and aims to be a focal point for locals and visitors alike.

Growth in tourism, improved conditions in the agricultural sector and increased activity in the manufacturing and services sectors earlier on, are likely to have contributed to a sharp fall in unemployment and more spending in the region. More recent indicators suggest that the manufacturing and services sectors in region could be slowing, raising the possibility of deterioration in labour market conditions going forward. Indeed, while households are still reporting that jobs are plentiful, there is some nervousness about job security in the future.

House prices continue to power ahead, with growth rates double the national average. The region continues to experience strong population growth, which has easily outpaced residential construction activity, particularly in the Queenstown area. A resulting shortage of housing stock has pushed buyers into neighbouring towns, such as Cromwell and Kingston. There are also reports that investors are selling former university rentals in Dunedin to new home buyers, rather than upgrading to new insulation standards which should be in place by next July.

The outlook for the region

Activity in Otago should improve in the short-term but weaken thereafter as household spending slows.

Household spending in the region is likely to be reflect slowing house prices, which could be significant given how they have been growing in recent quarters. This is particularly relevant in Queenstown where there has been significant demand for investment properties and there is evidence to suggest that the market is already beginning to turn. In the short-term, however, there could be a bit of a boost to consumer spending from increased social payments by Government to low income families, superannuitants, students and the unemployed.

Exports of agriculture and horticulture products are likely to support activity in the region with a weaker New Zealand dollar likely to offset an expected softening in commodity prices.

The weaker exchange rate is also likely to encourage more visitors to the region. An increase in number of Jetstar flights between Auckland and Queenstown should support growth, although this will put more pressure on supporting infrastructure, already creaking under the weight of ever increasing tourist arrivals. While some relief will be provided by the opening up of new short stay accommodation in the region, it's unlikely that additional supply will keep pace with demand.

Southland

After picking up sharply in the previous quarter, activity levels in Southland have flat-lined. That said, activity is significantly better than for the same period last year, and is much stronger than the five year average.

		Compared to	
Southland	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	13.0	33.3	21.2
Regional employment confidence	118.4	123.9	107.5
Unemployment rate (s.a.)	2.9%	3.2%	4.3%
Retail sales ($m, s.a.)	476	465	426
Passenger vehicle regos (s.a.)	949	873	776
Tractor regos (s.a.)	79	48	76
Guest nights (000, s.a.)	303	273	241
New dwellings consented (s.a.)	61	78	59
House sales (s.a.)	495	519	484
House price change, annual (s.a.)	4.9%	11.1%	4.6%
Net number of indicators rising compared to previous quarter			0
Net number of indicators rising compared to 5 year average			8

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Dairy, lamb and beef production is back on track following widespread drought conditions earlier in the year, while the forestry sector continues to perform strongly. Primary sector activity continues to be supported by elevated prices, underpinned by a weaker New Zealand dollar. However, this comes against the backdrop of efforts to eradicate the Mycoplasma bovis cattle disease and the uncertainties that this has created.

This may go some way to explaining why confidence in this region, so heavily dependent on the agricultural sector, has dropped sharply. Government policy action is likely to be another reason, especially where it affects key areas of the regional economy, including housing, agriculture and education. The introduction of a year of study on a fee-free basis, for example, could reduce student numbers attending the Southern Institute of Technology, which has been operating fee-free for some time.

That said, the announcement of increased spending by the Government on social welfare payments to low income families and super annuitants are likely to have been welcomed. So too payments to students, which are likely to have contributed to an increase in retail sales.

By contrast, firms seem to be quite upbeat about the prospects for their region according to a recent survey by Venture Southland. According to the survey, firms are hiring more people and this is reflected in the region's low unemployment rate, the lowest in the country. However, they remain concerned about employment prospects going forward.

Firms should also be feeling a bit better about the future after the Southland District announced that it had applied to government for $1m from the Provincial Growth Fund for various initiatives to support economic activity in the region. So too, news that the Tiwai Point aluminium smelter is rebooting its mothballed fourth pot-line after securing a four-year electricity deal with Meridian Energy.

The region's housing market has slowed dramatically after posting double digit growth in the preceding quarter. That said, price differentials with other regions remain a positive factor underpinning prices in what is New Zealand's most affordable region. A lack of housing in some parts of the region has led to rental shortages, dramatically increasing rents.

The slower growth in house prices has contributed to a fall in residential construction activity. By contrast, non-residential activity has been boosted by the construction of a new hotel in Invercargill to help ease periodic accommodation shortages caused by an increase in tourist numbers.

The outlook for the region

Activity in Southland should improve in the short-term but moderate thereafter as a slowdown in household spending offsets the positive impact of increased investment in the region.

Household spending in the region is likely to reflect slowing house prices. In the short-term, however, there could be a bit of a boost to consumer spending from increased social payments by Government to low income families, superannuitants, students and the unemployed.

A $200m inner city re-development planned for Invercargill's city centre and confirmation that retail giant Kmart is heading south with a new shopping mall being constructed near the town's CBD, is likely to have some significant spinoffs for a range of manufacturing and service industries in the region.

Exports of beef and lamb should support activity in the region with a weaker New Zealand dollar likely to offset an expected softening in commodity prices. Dairy payouts are expected to remain at about $6.50, which is cashflow positive for most farmers.

The weakness of the exchange rate, the completion of hotels in the region's hotspots and greater investment in infrastructure should encourage more visitors to the region.

Taranaki/Manawatu-Whanganui

Activity levels fell during the latest quarter but were still slightly better than they were in the same quarter last year. Activity is also well above the five year average.

		Compared to	
Taranaki/Manawatu-Whanganui	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	11.3	23.3	16.3
Regional employment confidence	107.4	113.6	102.9
Unemployment rate (s.a.)	6.3%	5.6%	5.9%
Retail sales ($m, s.a.)	1,450	1,468	1,364
Passenger vehicle regos (s.a.)	3,324	3,443	3,017
Tractor regos (s.a.)	109	74	94
Guest nights (000, s.a.)	479	478	477
New dwellings consented (s.a.)	423	430	306
House sales (s.a.)	1,737	1,713	1,550
House price change, annual (s.a.)	9.9%	9.3%	6.6%
Net number of indicators rising compared to previous quarter			-3
Net number of indicators rising compared to 5 year average			5

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

News that the Government will not be granting any more deep-sea oil and gas exploration permits, coupled with uncertainties relating to the partial closure of New Plymouth's Yarrow stadium because of an earthquake risk, are likely to be key reasons why confidence levels have dropped sharply in the region.

Despite increased levels of uncertainty surrounding the future of the oil and gas industry, elevated crude oil prices and a slightly weaker New Zealand dollar are likely to have supported economic activity in the region, with downstream benefits for associated industries.

Higher commodity prices for meat, dairy and horticulture products and a weaker New Zealand dollar are likely to have resulted in higher farmgate incomes, which may account for the sharp rise in regional tractor sales. Forestry production was also up and reports are that the port at New Plymouth has struggled to cope with increased log volumes.

Taranaki/Manawatu-Whanganui has also benefited from an increase in tourism, although recent indicators suggest that numbers have flat-lined following a period of sustained growth. With supporting infrastructure struggling to cope with tourist volumes, the Government recently announced that it would invest NZ$19.7m from the Provincial Growth Fund to help unlock the tourism potential of the region.

Unemployment has moved higher and now is among the highest in the country. Fewer households are reporting increased earnings and are becoming less optimistic about the outlook for earnings growth over the coming year. They are also reporting low levels of job security, which might explain the drop in retail sales and a sharp fall in new passenger vehicle registrations.

House prices are still growing fast and sales volumes remain strong. Taranaki in particular is experiencing big gains, reflecting the relative affordability of houses in the region and interest from investors.

The outlook for the region

Activity in Taranaki/Manawatu-Whanganui should improve in the short-term but moderate thereafter as a slowdown in household spending offsets the positive impact of increased investment in the region.

Household spending in the region is likely to reflect slowing house prices which could be significant given how they have been growing in recent quarters. However, in the short-term there could be a bit of a boost to consumer spending from increased social payments from the Government to low income families, superannuitants, students and the unemployed.

The announcement by the Government that it will use the Provincial Growth Fund to scope the development of a number of hydrogen generation, storage and distribution facilities is likely to support activity in the region. Longer term, this should help to offset the impact of a possible cut in private sector investment in the oil industry.

Exports of horticulture and oil products should support activity in the region with a weaker New Zealand dollar likely to offset an expected softening in commodity prices. Dairy payouts are expected to remain at about $6.50, which is cashflow positive for most farmers. Exports are likely to be further boosted by news that Methanex, New Zealand's largest exporter of methanol, will be staying in the region.

A weaker New Zealand dollar should encourage more visitors to the region, although gains are likely to be limited by well publicised infrastructure constraints. Investments from the Provincial Growth Fund aimed at supporting tourism are unlikely to address these in the short-term. This includes the upgrading the hiking trails around Mount Taranaki and the national park, an investigation into the tourism value of the Forgotten World Highway (SH43), an upgrade of the Taranaki Cathedral in New Plymouth and the revitalisation of the Whanganui Port.

Waikato

Activity levels in the Waikato have improved slightly in the latest quarter, but remain well below those recorded for the same quarter in the previous year. Like most other regions, activity levels in the latest quarter are higher than the five year average. Economic activity in this region should build on recent gains.

Waikato	Latest Quarter	Compared to Previous Quarter	5 Year Average
Regional economic confidence	7.0	23.8	18.7
Regional employment confidence	117.9	114.4	106.4
Unemployment rate (s.a.)	4.3%	4.5%	5.2%
Retail sales ($m, s.a.)	2,069	2,072	1,837
Passenger vehicle regos (s.a.)	4,887	4,703	4,338
Commercial vehicle regos (s.a.)	1,617	1,591	1,300
Guest nights (000, s.a.)	864	847	839
New dwellings consented (s.a.)	883	880	770
House sales (s.a.) *	1,881	2,066	2,098
House price change, annual (s.a.)	3.9%	6.5%	9.5%
Net number of indicators rising compared to previous quarter			2
Net number of indicators rising compared to 5 year average			4

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV
* House sales data includes Bay of Plenty and Waikato

The agricultural sector continues to benefit from higher dairy and meat prices and a slightly weaker New Zealand dollar, which under normal circumstances would have boosted confidence levels in the region. However, the spread of the Mycoplasma bovis cattle disease to this key dairy producing region has hit farmers pretty hard, and this is likely to be one of the reasons why confidence has dropped sharply.

Tourism continues to grow although the pace of growth in visitor arrivals has slowed. The region is still popular with foreigners looking to explore outside of the major tourism destinations. Tourism in Hamilton has also benefitted from its close proximity to Auckland Airport and Tauranga, as well as the competitive pricing of its short-stay accommodation.

The performance of the agricultural sector and downstream agri-processing are likely to have been key factors driving employment growth. Confidence in the labour market has improved with households reporting firmer job levels and lower levels of unemployment.

However, this hasn't translated into retail sales, which have effectively moved sideways.

The region's housing market has slowed markedly due to contagion effects from the slowing Auckland market. The Government has also begun to implement policies targeting the housing market. Prices in Hamilton most closely reflect this dynamic and there has been an increase in the number of prospective buyers seeking property in cheaper areas within commutable distance of the city. That said, there is still demand for properties at the top end of the market with the number of million dollar homes being sold posting new highs.

Construction activity has slowed, with residential building consents effectively flat-lining. Declining returns on investment in an environment characterised by rising input costs and flatter house prices is likely to be a major reason for the slowdown. Growth in non-residential construction activity, which has been relatively buoyant because of population gains and increased on-farm investment, is also showing signs of a slowdown.

The outlook for the region

Activity in the Waikato should improve in the short-term but weaken thereafter as household spending slows.

Household spending in the region is likely to reflect slowing house prices. In the short-term, however, there could be a bit of a boost to consumer spending from increased social payments by Government to low income families, superannuitants, students and the unemployed.

Factors affecting the housing market are likely to be reflected in a slowdown in the pace of residential construction activity, although there are likely to be pockets of growth. Activity south of Hamilton, for example, is likely to be boosted by a $290m investment out of the Government's Housing Infrastructure Fund to develop the suburb of Peacocke.

Exports of meat products are likely to support activity in the region with a weaker New Zealand dollar likely to offset an expected softening in commodity prices. Dairy payouts are expected to remain at about $6.50, which is cashflow positive for most farmers.

The weakness of the exchange rate should help to entice more visitors to the region. So too eventually, the proposed Sky Garden project in the King Country and a $40m hotel at the Waitomo golf course. New hotels planned for Hamilton and extensions to some existing ones are likely to go some way to addressing periodic shortages of quality short stay accommodation.

Wellington

Wellington is one of the top performing regions in the country. Activity has continued to build on the gains achieved in the previous quarter, is well above that of the same time last year, and is significantly higher than the five year average.

Wellington	Latest Quarter	Compared to Previous Quarter	Compared to 5 Year Average
Regional economic confidence	39.0	35.2	23.1
Regional employment confidence	116.8	115.3	104.9
Unemployment rate (s.a.)	4.9%	4.6%	5.2%
Retail sales ($m, s.a.)	2,230	2,224	2,044
Passenger vehicle regos (s.a.)	5,879	5,767	5,145
Commercial vehicle regos (s.a.)	1,386	1,163	1,021
Guest nights (000, s.a.)	784	763	776
New dwellings consented (s.a.)	779	753	495
House sales (s.a.)	2,113	2,141	2,192
House price change, annual (s.a.)	6.5%	8.7%	8.0%
Net number of indicators rising compared to previous quarter			3
Net number of indicators rising compared to 5 year average			6

Source: Westpac McDermott Miller, Stats NZ, NZTA, QV

Wellington's economy is performing well and there is a growing sense of optimism, especially because the region is benefitting from more Government hiring and spending. Confidence is also likely to have been helped by rising house prices, which despite slowing in the latest quarter, continue to outpace those in both Auckland and Canterbury. A growing population, with more people being attracted to the lifestyle and business/employment/study opportunities available in the region is also likely to have been a factor. A recent report declaring that Wellington was the best place to live out of 47 international cities, and another suggesting that the capital is the most creative in the country may well have made it more attractive to prospective migrants.

A strong labour market has also helped to improve employment confidence. Despite a small pickup in unemployment, Wellingtonians are feeling pretty positive about the state of the labour market in their region. This is likely to be related to expectations of increased public sector activity following the change of government.

Tourism is also likely to have contributed to the region's feel good factor. Tourist arrivals have continued to grow, supported by an increasing number of quality activities and attractions in the region. Having been rated as one of the top destinations for cruise ships in Australasia may also have had an impact. However, there are signs of a pull-back with growth in domestic and international guest nights having slowed in the last couple of quarters.

Rising house prices, a strong labour market and a still buoyant tourism sector are likely to have resulted in an increase in retail sales, which would also have been helped by a number of world class retailers setting up shop in the capital. So too passenger vehicle sales, which have now recovered following a fall in vehicle imports earlier in the year due to a stink bug infestation. Commercial vehicle sales are also higher, presumably because of an increase in residential building consents.

One negative factor that seems be weighing on the region is a decline in business confidence. The most recent quarterly Wellington Chamber of Commerce business confidence survey found that fewer firms expect Wellington and the national economy to improve over the coming 12 months. A key area of concern seems to be proposed changes to employer-employee relations, especially the removal of the 90-day probation period.

The outlook for the region

Activity in the Wellington should improve in the short-term but weaken thereafter as household spending slows.

Household spending in the region is likely to reflect slowing house prices. In the short-term, however, there could be a bit of a boost to consumer spending from increased social payments by Government to low income families, superannuitants, students and the unemployed.

Activity in the region is likely to be also be supported by greater investment by the Government in the public sector. This should translate into more jobs for Wellingtonians and higher wages. It should also have positive knock-on effects for industries in the region that depend on public sector spending.

Export earnings from services are likely to grow further as more tourists visit the region and the New Zealand dollar weakens. This should not only encourage foreign tourists to the capital, but also domestic tourists looking for a cheaper alternative to going overseas. Whether this occurs depends on availability of short-stay accommodation, which is likely to remain in short supply.

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