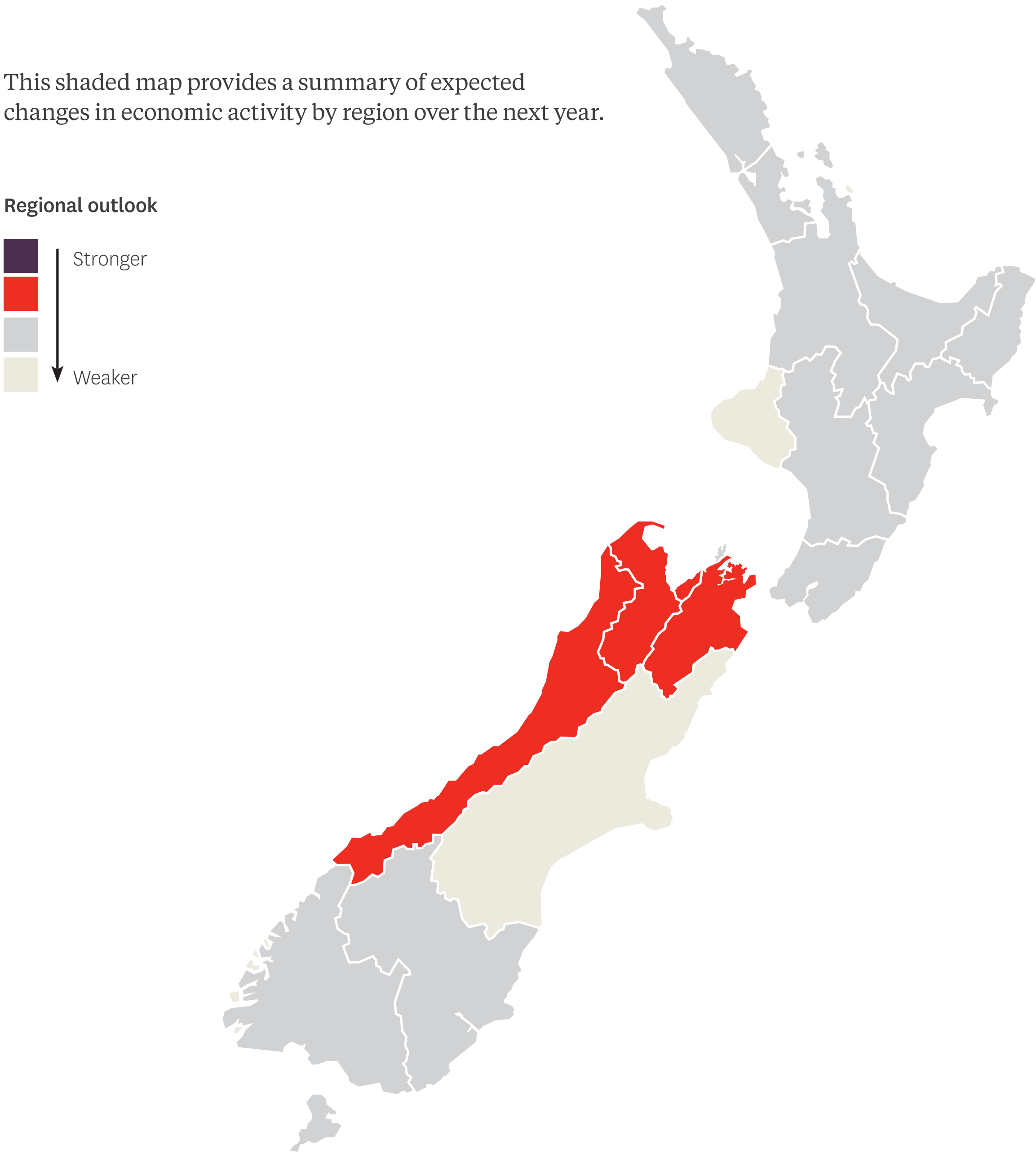
May 2018

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 ROUNDUP

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Summary

Economic conditions improved slightly in the latest quarter, with more regions posting higher activity levels than in the preceding quarter. Southland was the top performing region. Auckland also did pretty well, as did Wellington. By contrast, activity levels in the Nelson/Marlborough/West Coast region were sharply lower, while activity in Canterbury came off its recent highs.

Most rural regions benefited from elevated commodity prices and a slightly weaker New Zealand dollar in the latest quarter. This helped to lift incomes and spending as well as sentiment. However, this wasn't the case for all rural regions, some of which were affected by severe weather events. Flooding, for example, caused widespread damage and disruption in the Nelson/Marlborough/West Coast region, while drought conditions impacted on dairy and meat production in Southland and Otago. Sentiment was unlikely to have been improved by the spread of the Mycoplasma bovis cattle disease from the South to the North Island, and ongoing uncertainties about what government policy might mean for agriculture in the future.

Most regions benefited from an increase in tourist arrivals in the latest quarter, which helped to boost retail sales. Guest nights rose in all regions except for Nelson/Marlborough/West Coast and Gisborne/Hawkes Bay. While traditional hotspots like Otago, Southland and the Bay of Plenty led the charge, less traditional tourist destinations, such as the Waikato and Wellington, also did well. That said, tourism has slowed in recent quarters and there is evidence to suggest that capacity constraints are starting to put off potential visitors, particularly in Auckland, Gisborne/Hawkes Bay and Otago.

House prices in most regions are growing strongly. The biggest price increases have been in rural regions, with most posting double-digit or close to double-digit price growth. Gisborne/Hawkes Bay, Southland and Otago have been the standouts, while Wellington easily outperformed its large metropolitan counterparts. Population gains, favourable price differentials, lower mortgage rates and easier access to finance will have supported demand, pushing prices higher. A rush to get ahead of regulatory changes that target investors in the housing market, are also likely to have had an impact.

Looking forward, economic activity across the regions is likely to slow.

Rural economies are likely to experience more challenging operating conditions over the coming year, should soft commodity prices weaken as expected. The negative impact on regional incomes is unlikely to be fully offset by an expected weakening of the New Zealand dollar. Sentiment could be further eroded if the Government pushes forward with environmental regulation on farming. More culling of dairy cattle to contain the Mycoplasma bovis cattle disease should dampen sentiment further.

Tourism should provide some cheer with tourist arrivals set to increase off the back of firm global economic conditions and a weaker New Zealand dollar. Traditional tourist areas will continue to prosper, especially if they have addressed well-publicised capacity constraints. Smaller tourist regions, such as Northland and Gisborne, should benefit from increased government investment.

Housing markets across the country are expect to slow and this will impact consumer spending. The impact will be felt most acutely in regions where investors are most active, such as Auckland and the Waikato.

Understanding the regional pages

The report examines each region's performance 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 implies the opposite.

This assessment provides the basis for the discussion on the outlook for the next couple of years. The outlook is also influenced by forecasts produced in other publications, including the *Economic Outlook*, which can be found: https://www.westpac.co.nz/wib/economic-updates/economic-research-and-strategy/

Auckland

Economic conditions in Auckland have improved markedly in the latest quarter. Activity in the region is much in line with the same quarter last year, and well above the five-year average. That said, the region's economy is set for a slowdown in coming quarters, and this will have repercussions for the wider New Zealand economy.

Auckland	Latest Quarter	Compared to Previous Quarter	Compared to 5 Year Average
Regional economic confidence	-0.4	-15.8	15.6
Regional employment confidence	118.7	114.1	110.6
Unemployment rate (s.a.)	4.4%	4.7%	5.5%
Retail sales ($m, s.a.)	8,460	8,416	7,384
Passenger vehicle regos (s.a.)	29,960	34,045	28,354
Commercial vehicle regos (s.a.)	6,071	6,297	5,000
Guest nights (000, s.a.)	1,830	1,815	1,780
New dwellings consented (s.a.)	2,935	2,670	2,142
House sales (s.a.)	5,939	5,198	6,984
House price change, annual (s.a.)	1.0%	0.4%	11.5%
Net number of indicators rising compared to previous quarter			6
Net number of indicators rising compared to 5 year average			4

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

Auckland's $100bn regional economy is performing well, with strong growth being recorded in the construction and services sector, especially rental, hiring and real estate services, as well as finance and insurance. This has contributed to a falling unemployment rate and an increase in the number of people employed in the region.

Construction activity has struggled to keep pace with the growth in the region's population. Dwelling consents have continued to grow, with much of this being for retirement village units, townhouses and flats. Non-residential building consents have also showed strong growth, with volumes significantly up on the previous year.

Population growth in the region, lower mortgage rates and slightly easier access to finance have pushed house prices higher in recent quarters after a period of house price decline earlier in 2017.

The pickup in house prices has also been accompanied by an increase in house sales. This has been particularly evident in the period following the election and is likely to be because of a rush to beat looming regulatory changes targeting the housing market.

The tourism sector, in the meantime, continues to perform well, although the trajectory in guest nights has flattened off in recent quarters. This is likely to reflect a combination of increasing capacity constraints and higher prices, which might have put off potential visitors to the region.

The outlook for the region

The Auckland regional economy is expected to slow in coming quarters.

House prices are more likely to fall than rise over the remainder of this year because of a drop in migration to the region, an expected increase in fixed mortgage rates, the implementation of regulatory changes which will target investors in the housing market, and a possible capital gains tax at a later date.

Construction activity is expected to increase given the significant level of residential and non-residential works in the pipeline. However, there are a couple of factors that might limit construction growth. These include weaker house prices which might deter investment by developers; the availability and higher cost of finance; and as well as ongoing capacity constraints in the building and construction sector.

Weaker house prices, coupled with an increase in petrol excise duties and a regional fuel tax to pay for a better public transport system, are likely to affect confidence in the region, and this could result in lower spending.

One bright spot could be tourism. The region, which has traditionally been regarded as a gateway to other regions, is now a tourist destination in its own right. Consequently, it should benefit from improved global economic conditions and a slightly weaker New Zealand dollar. However, growth could be affected by capacity constraints as tourist numbers continue to increase, although this situation is likely to be alleviated over time as newly constructed hotels are completed.

Bay of Plenty

Economic conditions in the Bay of Plenty have improved marginally following a deterioration in the previous quarter. Activity in the region is also higher than a year ago and, like most other regions, is above the five-year average. Looking ahead, activity in the region is expected to slow.

		Compared to	
Bay of Plenty	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	27.0	13.4	28.9
Regional employment confidence	122.6	112.0	106.1
Unemployment rate (s.a.)	5.3%	5.0%	6.1%
Retail sales ($m, s.a.)	1,431	1,407	1,250
Passenger vehicle regos (s.a.)	3,700	3,836	3,029
Commercial vehicle regos (s.a.)	1,169	1,075	810
Guest nights (000, s.a.)	1,004	983	879
New dwellings consented (s.a.)	548	670	467
House sales (s.a.) *	1,319	1,223	1,413
House price change, annual (s.a.)	6.4%	6.5%	10.1%
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

Firmer activity levels, in part, reflect growth in the horticultural, agricultural and forestry sectors, all of which have benefited from higher commodity prices in recent times. Increased activity in the manufacturing, utilities and retail sectors have also made a meaningful contribution, while the Port of Tauranga has experienced strong growth in volumes handled. Recent announcements that the Government will use the Provincial Growth Fund to support the region's forestry sector have further boosted confidence in the region.

House prices have also risen, in part because of strong population gains, with more people moving from major centres like Auckland and Wellington, to Tauranga in particular. They have also risen because of lower mortgage rates and slightly easier access to finance. However, as prices have increased, so too have concerns about affordability. This is particularly so in Tauranga, with a recent global study rating the city as being more unaffordable than Auckland.

The rise in house prices has been accompanied by an increase in house sales volumes. The reasons for this are very similar to those that have driven house prices, but would also include a rush to beat regulatory changes targeting the housing market.

Despite raised activity levels, labour market conditions in the region have softened in the latest quarter, with unemployment ticking upwards. Part of the reason for this relates to the structure of the region's economy and its high dependency on seasonal industries. As a result, its labour market tends to be quite volatile, especially when compared to the national picture. The overall trend for unemployment in the region is still downwards.

Retail spending in the region has increased, as more people have moved to the region and house prices have risen. An increase in tourist numbers, domestic and increasingly from abroad, as well as improved fortunes in the agricultural sector, have also provided a boost.

The outlook for the region

Activity in the region's agricultural, horticultural, and forestry sectors is likely to be adversely affected by an expected weakening of commodity prices, which should more than offset the positive impact of a weaker New Zealand dollar.

House prices are still expected to grow faster than the national average, but the pace of growth should slow. House prices in the region will continue to benefit from the movement of people from major centres, although the impact is likely to lessen as house price differentials narrow. An expected increase in fixed mortgage rates, the phased introduction of regulatory changes to the housing market, and the possible introduction of a capital gains tax at a later date should place downward pressure on house prices.

Weaker conditions in the horticultural, agricultural and forestry sectors and slower house prices are likely to dampen spending in the region. However, spending from tourism is likely to provide some offset, especially if the region is able to address constraints to growth in key hotspots through targeted investment. These include shortages in visitor accommodation, congestion on the roads during peak periods and issues relating to freedom camping.

Canterbury

After a strong performance in the previous quarter, activity levels in Canterbury have turned southwards. Activity in the region is also down on the same period last year and is lower than the five-year average.

Canterbury		Compared to	
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	22.5	18.5	36.2
Regional employment confidence	107.3	113.5	112.7
Unemployment rate (s.a.)	3.9%	3.4%	3.4%
Retail sales ($m, s.a.)	3,022	2,971	2,794
Passenger vehicle regos (s.a.)	9,458	10,444	8,931
Commercial vehicle regos (s.a.)	1,864	2,049	1,670
Guest nights (000, s.a.)	1,372	1,325	1,214
New dwellings consented (s.a.)	1,111	1,408	1,479
House sales (s.a.)	2,501	2,478	2,547
House price change, annual (s.a.)	0.4%	0.8%	4.0%
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

Signs that economic activity in the region has started to slow from relatively high levels are becoming increasingly evident. Recent surveys of activity suggest that the manufacturing (comprising food, machinery and equipment, fabricated metal product and polymer and rubber products) and services sectors are expanding, but at a slower pace than before.

The agricultural sector has benefited from higher dairy and meat prices, as well as a slightly weaker New Zealand dollar. However, production was impacted by unseasonably hot and dry weather conditions towards the end of 2017.

The agriculture sector has also been affected by the outbreak of the Mycoplasma bovis cattle disease on a number of farms in mid- and South Canterbury. This has had a minor impact on production. The real impact has been on sentiment, already at a low ebb due to fears that the new government will hit agriculture with higher environmental charges.

Construction activity has slowed as the rebuild has wound down. The mix has also changed, with non-residential buildings accounting for most activity in the construction sector. Residential building activity has also fallen.

Slowing population growth and the ready availability of housing are key reasons why house prices have grown only slightly in recent quarters. The number of houses being sold, however, has increased, probably because more people are looking to purchase before a range of regulatory changes targeting the housing market are introduced.

Lower levels of construction activity are impacting the labour market. The region's unemployment rate has started to pick up, and while it remains significantly below the national average, the gap between the two has narrowed, suggesting that activity in the region is beginning to normalise.

On the positive side, the region continues to attract domestic and international tourists. Canterbury, which is particularly popular with tourists from China, has benefited significantly with growth in tourism related expenditure far exceeding tourism volumes.

The outlook for the region

Canterbury is becoming much more reliant on traditional drivers of economic activity as the rebuild winds down. As conditions begin to normalise, and the manufacturing and services sectors return to centre stage, unemployment rates can be expected to rise, which will affect spending in the region.

The agricultural sector is likely to be adversely affected by an expected easing in dairy and meat prices, which should more than offset a forecast weakening of the New Zealand dollar. Weaker operating conditions, the possible spread of the Mycoplasma bovis cattle disease, and lingering worries about what the Government's climate change and environmental policies might mean are likely to undermine confidence in the sector. This could push some farmers to put their farms on the market, resulting in more farms for sale at lower prices.

The manufacturing sector is also expected to face some headwinds. Domestic demand for manufactured goods is closely related to construction activity, which is slowing locally. However, an expected weakening of the New Zealand dollar coupled with firm global economic conditions should support manufacturing export volumes through the Lyttleton Port.

Service sector activity is also likely to feel the effects of an overall slowdown in economic growth, but could benefit from the opening up of new retail and commercial projects in the Christchurch CBD. Trade related services are likely to benefit from an expected increase in export volumes and more tourists visiting a newly re-built Christchurch.

Gisborne/Hawke's Bay

Conditions in Gisborne and the Hawke's Bay region have improved slightly. Activity in the region is well up on the same period last year and far better than the five-year average. However, a moderation is expected in coming quarters.

Gisborne/Hawke's Bay	Latest Quarter	Compared to Previous Quarter	 5 Year Average
Regional economic confidence	31.8	27.4	20.3
Regional employment confidence	109.7	109.7	102.6
Unemployment rate (s.a.)	5.3%	8.9%	7.1%
Retail sales ($m, s.a.)	876	869	770
Passenger vehicle regos (s.a.)	1,741	1,975	1,561
Commercial vehicle regos (s.a.)	679	627	507
Guest nights (000, s.a.)	392	392	332
New dwellings consented (s.a.)	164	202	125
House sales (s.a.)	813	824	778
House price change, annual (s.a.)	15.3%	13.9%	8.5%
Net number of indicators rising compared to previous quarter			2
Net number of indicators rising compared to 5 year average			10

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

The region has benefited from higher commodity prices and a slightly weaker New Zealand dollar, which has increased activity in the region's horticultural (apples, stone fruit and vegetables), viticultural, agricultural, seafood and forestry sectors. This has resulted in sharply higher volumes through the Port of Napier and Gisborne's port.

Unlike most other regions, tourism in Gisborne/Hawke's Bay seems to have stalled with guest nights having gone sideways for a number of quarters. This moderation, which comes after a period of sustained growth, suggests that tourism infrastructure in the region is struggling to cope with growing visitor arrivals.

Increased primary sector activity, and what is still a buoyant tourism market, has helped to reduce the rate of unemployment in the region. However, unemployment in this region can be quite volatile, in part because the region has relatively small labour force, but also because of the type of work that is on offer. The horticultural sector, for example, typically increases its demand for workers during the fruit picking season, and filling this can have quite a big impact on the rate of unemployment. It's not uncommon for local authorities to encourage backpackers holidaying in the region to do some fruit picking to fill seasonal shortages.

The region has experienced a significant increase in house prices. Much like the Bay of Plenty, the Gisborne/Hawke's Bay region has also benefited from inward migration, with people from the big metropolitan areas looking for lifestyle changes. This is particularly true in Hawke's Bay, with interest mainly coming from owner/occupiers. The number of attendees at open homes has increased while investor interest has declined compared to the same period last year.

The outlook for the region

Activity in the region's agricultural, horticultural, and forestry sectors is likely to be adversely affected by an expected weakening of commodity prices over coming quarters, which should more than offset the positive impact of a weaker New Zealand dollar.

Like most regions that rely on agriculture, ongoing uncertainties about the cost implications of being included in an expanded emission trading scheme and issues relating to water pricing are likely to adversely affect sentiment in the region. The emergence of Mycoplasma bovis cattle disease in the Hawke's Bay will increase uncertainty and dampen rural confidence.

The Government's announcement that it will use the Provincial Growth Fund to boost regional tourism and forestry is likely to improve confidence in the region's future, which should support more spending over the next couple of quarters. Initiatives such as the re-opening of the Wairoa-Napier rail line and redevelopment of the Gisborne Inner Harbour, are also likely to support these industries. However, possible funding cuts to the region's tourism promotional activities, particularly by local authorities in the Hawke's Bay, might have the opposite effect.

House prices are still expected to grow faster than the national average, but the pace of growth should slow. House prices in the region will continue to benefit from the movement of people from major centres, although the impact is likely to lessen as house price differentials narrow. An expected increase in fixed mortgage rates, the implementation of regulatory changes to the housing market, and the possible introduction of a capital gains tax at a later date, should place downward pressure on house prices. However, a growing population should still support growth in residential building consents and construction activity, with positive knock-on effects for the rest of the regional economy.

Nelson/Marlborough/West Coast

Activity has fallen sharply in the latest quarter and this region is the worst performer in the country. Although slightly down on the same period last year, activity levels remain well above the five-year average. A bounce back in activity can be expected in coming quarters.

		Compared to	
Nelson/Marlborough/West Coast	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	13.4	32.7	25.9
Regional employment confidence	107.2	118.9	105.7
Unemployment rate (s.a.)	3.0%	3.0%	4.1%
Retail sales ($m, s.a.)	876	874	786
Passenger vehicle regos (s.a.)	1,680	1,903	1,467
Tractor regos (s.a.)	43	50	51
Guest nights (000, s.a.)	952	963	840
New dwellings consented (s.a.)	255	275	213
House sales (s.a.)	825	750	792
House price change, annual (s.a.)	7.6%	8.9%	6.1%
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

The biggest factor affecting recent activity in this region has been the weather, which has fluctuated from one extreme to the other. Not only has the region experienced periods of dry and hot weather, it has also been subject to extreme storm events, among which were ex-tropical cyclones, Gita and Fehi. These events caused widespread disruption and damage across the region, washing out roads and bridges and damaging horticultural and forestry businesses.

Tourism was also affected, particularly in Nelson and Marlborough where major roads were blocked. By contrast, the number of tourists visiting the West Coast performed slightly better. Retail sales were also relatively flat, in part because of the decline in tourist numbers, but also because people remained indoors, out of harm's way. Lower confidence levels translated into far fewer car and tractor registrations.

Despite these events, the labour market has remained strong. The unemployment rate in the region continues to be much lower than the national average, while the number of people employed has grown. However, there are some initial signs of weakness, with the number of people unemployed and underemployed having increased.

This may, in part, be due to what is happening in the construction sector, which seems to have come off the boil. Growth in residential building consents has trended down for a couple of quarters and has now turned negative. The same applies for non-residential building consents, although the pace of decline has been less severe.

House prices in the region continue to grow strongly because of net migration to the region, lower mortgage rates and slightly easier access to finance. The volume of houses being sold has also increased because of an increase in the number of people looking to purchase before the introduction of regulatory changes that will target the housing market. Most interest has been for entry level homes. Demand for higher quality homes has slowed, mainly because of affordability issues.

The outlook for the region

Activity across the region should recover relatively quickly from recent storm events.

Although the storms caused significant damage to some orchards in the region, it is unlikely that horticultural production in the region will have been significantly impacted. That said, an expected softening in prices should still be enough to offset a forecast weakening of the New Zealand dollar, resulting in lower export earnings, and regional incomes. Forestry too, is likely to experience similar market conditions.

The number of tourists visiting the region is also likely to recover quickly, despite having its peak season disrupted. The recovery is expected to be helped along by repairs to damaged infrastructure, and an expected weakening of the New Zealand dollar. The re-opening of State Highway 1 to Kaikoura should also support a general lift in economic activity, with most industries in the region expected to benefit from more predictable travel times.

Like much of rural New Zealand, house prices should continue to grow, but at a slower rate than before. The slowdown is likely to be driven by the impact of the foreign buyer ban on residential property, other regulatory changes, affordability issues, and slowing population growth.

Residential building consents can be expected to ease further, which should translate in lower levels of construction activity in the region. This should have knock-on effects for unemployment, which may impact on spending in the region.

Northland

Economic activity in Northland dipped slightly in the latest quarter. Like other rural regions, activity in Northland was slightly better than the same time last year, and was significantly better than the five-year average. Activity in the region can be expected to weaken further in coming quarters.

Northland		Compared to	
	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	21.0	18.0	-0.7
Regional employment confidence	111.4	120.5	103.3
Unemployment rate (s.a.)	6.5%	6.1%	7.8%
Retail sales ($m, s.a.)	689	689	613
Passenger vehicle regos (s.a.)	1,528	1,650	1,263
Commercial vehicle regos (s.a.)	584	583	444
Guest nights (000, s.a.)	502	488	443
New dwellings consented (s.a.)	273	299	228
House sales (s.a.)	620	604	627
House price change, annual (s.a.)	9.4%	9.5%	9.1%
Net number of indicators rising compared to previous quarter			-1
Net number of indicators rising compared to 5 year average			8

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

Northland has benefited from higher commodity prices and a slightly weaker New Zealand dollar, which has increased activity in the region's seafood, horticultural, forestry, lamb and beef sectors. That said, dry and hot weather conditions are also likely to have had an impact on production in some sectors.

Tourism in the region has grown, mainly because of strong growth in international tourist numbers. Growth in domestic tourism to the region has been less spectacular, in the main because of higher prices, especially in the peak season when accommodation is in short supply. Capacity constraints, due to a historical lack of investment in tourism facilities, are becoming more evident in the region.

Northland's housing market continues to proceed at pace, with price growth almost reaching double digits. Sales volumes have also grown strongly. Increased demand from investors looking to get ahead of regulatory changes that will target the housing market, is likely to have been a key driver. So too, falling mortgage rates and slightly easier access to finance.

Increased house prices should have been accompanied by increased residential building activity. However, the number of building consents approved has declined for a number of quarters now, and although recent indications suggest that they might have picked up in the last month or so, construction activity will have slowed as a result.

The outlook for the region

Activity in the region's horticultural, forestry, lamb and beef sectors is likely to be adversely affected by an expected weakening in commodity prices, which should more than offset the positive impact of a weaker New Zealand dollar.

Tourist numbers are expected to increase further, mainly because of an expected weakening of the New Zealand dollar, which should make the region more attractive to foreign tourists. However, capacity constraints will impede growth and it seems very unlikely that recently announced investments out of the Provincial Growth Fund targeting tourism will be able to alleviate these in the near-term.

That said, the use of the Provincial Growth Fund to support tourism (as well as forestry) will have gone down well and confidence in the region is likely to have been lifted by the possibility of more to come. Less well received will be the probable cancellation of the proposed expressway from Warkworth to Whangarei, which had been seen as key to unlocking the economic potential of the region.

House prices are expected to grow at a faster rate than the national average, but will still slow. Investor demand is likely to ease as house prices rise and differentials with other regions close. Slower population growth in the region, rising fixed mortgage rates, coupled with the phased introduction of regulatory changes to the housing market and the possibility of a capital gains tax at a later date, should slow the rate at which prices increase.

Otago

Activity levels in Otago remained unchanged in the latest quarter, although they are still quite a bit better than the same period last year and significantly better than the five-year average. Activity in this region can be expected to slow in coming quarters.

		Compared to	
Otago	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	24.8	52.0	15.3
Regional employment confidence	121.8	112.0	103.7
Unemployment rate (s.a.)	4.5%	4.2%	4.2%
Retail sales ($m, s.a.)	1,308	1,289	1,145
Passenger vehicle regos (s.a.)	2,012	2,346	1,851
Commercial vehicle regos (s.a.)	737	721	566
Guest nights (000, s.a.)	1,552	1,494	1,373
New dwellings consented (s.a.)	545	634	386
House sales (s.a.)	1,190	1,074	1,145
House price change, annual (s.a.)	10.4%	11.7%	9.9%
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

The agricultural and horticultural sectors have benefited from better prices and a slightly weaker New Zealand dollar, but have been unable to take full advantage of these because of drought conditions. The combination of difficult operating conditions and ongoing worries about what government policy might mean for the sector are likely to have contributed to the significant drop in regional economic confidence.

A slowdown in manufacturing activity in the region has also become more evident in recent quarters, which might help to explain the slight pickup in the rate of unemployment. The now completed decommissioning of Cadbury's long standing manufacturing plant in Dunedin is likely to have added to these statistics.

The standout for the region was the performance of the tourism sector, which continues to benefit from foreign tourists flocking to the Queenstown-Lakes area. Otago has also benefited from an increasing number of summer cruise ship visitors. Tourism sector activity may also have been helped by the hotter weather, with positive impacts for accommodation providers, restaurants and tourist operators. However, there are signs that growth, although healthy, is starting to moderate and this could be because the region's hospitality industry is capacity constrained.

Otago's housing market continues to proceed at pace, with double-digit price growth and increasing sales volumes. Most of this has been driven by growth in areas with lower average asking prices. House prices have risen because of strong population gains, lower mortgage rates and slightly easier access to finance. A desire by some to purchase ahead of regulatory changes that will affect the housing market is also likely to have played a part.

The construction sector has shown signs of weakness, although the decline in residential building consents is somewhat overstated because of a large increase in housing consents in one month in the previous quarter. The overall trend is that residential building consents have been flat for a number of quarters.

The outlook for the region

The region's agricultural and horticultural sectors will recover from the drought, but are likely to be adversely impacted by lower commodity prices, which will more than offset an expected weakening of the New Zealand dollar. Weaker operating conditions, and lingering worries about what the Government's climate change and environmental policies might mean, are likely to undermine confidence in the sector. This could push some farmers to put their farms on the market, resulting in more farms for sale at lower prices.

House prices in the region are more likely to fall than rise over the remainder of the year. The rush to get ahead of regulatory changes targeting the housing market is likely to provide some near-term impetus, but house prices should soften once these changes are implemented. The ban on foreign buyers in particular is likely to be significant for this region. Other factors, such as slower population growth, increasing fixed mortgage rates, and the possible announcement of a capital gains tax are also likely to come into play.

Residential building consents can be expected to ease further from current levels, which should translate into lower levels of construction activity. This should have knock-on effects for unemployment, which may impact spending in the region.

Tourist numbers are likely to increase further, mainly because of an expected weakening of the New Zealand dollar, which should make the region more attractive to foreign tourists. Some of the capacity constraints seen recently are likely to be alleviated by the opening up of a number of new hotels in the region's hotspots, which should be positive for activity in associated industries.

Southland

After having dipped in the previous quarter, Southland is now the best performing region in the country. Activity in the region is also slightly better than during the same period last year, and significantly better than the five-year average.

Southland	Latest Quarter	Compared to Previous Quarter	5 Year Average
Regional economic confidence	33.3	24.5	21.3
Regional employment confidence	123.9	106.9	106.5
Unemployment rate (s.a.)	4.0%	4.8%	4.4%
Retail sales ($m, s.a.)	464	459	422
Passenger vehicle regos (s.a.)	1,113	1,013	756
Tractor regos (s.a.)	89	67	76
Guest nights (000, s.a.)	303	273	241
New dwellings consented (s.a.)	69	58	56
House sales (s.a.)	503	449	470
House price change, annual (s.a.)	11.1%	12.2%	5.2%
Net number of indicators rising compared to previous quarter			8
Net number of indicators rising compared to 5 year average			10

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

Agricultural production in the region has been affected by drought conditions. Resulting higher feed costs have led to an increase in livestock sales, and with less dairy being produced, the sector has been unable to take full advantage of better prices and a slightly weaker New Zealand dollar. That said, the region's forestry sector continues to power ahead on the back of higher log prices.

The agricultural sector has also been affected by the outbreak of the Mycoplasma bovis cattle disease, although impacts on production have been minor. The real impact has been on sentiment which has already been affected by the drought, and the possibility that agriculture may face more stringent environmental regulations and costs.

Southland has reaped the benefits from the tourism boom, with growth in guest nights easily outpacing the national average. Tourism operators, accommodation services, and retailers have also benefited from spill-over effects from the Queenstown Lakes area. This is likely to have contributed to the large drop in unemployment in the region.

The region's housing market continues to outperform, with house prices showing double-digit gains and sales volumes continuing to rise. House price growth reflects lower mortgage rates and relative price differentials with other regions. Southland has the most affordable housing in the country and this continues to attract people to the region.

The buoyant housing market has, in turn, supported an increase in construction activity, and stronger spending, evidenced by an increase in the number of new vehicles being registered in the province. Although small in number, residential building consents continue to grow strongly. By contrast, non-residential building consents in the region have trended downwards.

Like other regions in the South Island, the rate of unemployment in Southland sits well below the national average. This reflects strong growth in employment across a range of industries and lower levels of underemployment. Wage rates remain low and are likely to have contributed to this positive picture.

Stronger employment, more tourists and higher house prices are likely to be the key reasons why spending has increased, with retail sales, passenger vehicle sales and the number of tractors purchased all showing gains.

The outlook for the region

Agriculture is likely to face some headwinds, with a number of commodity prices set to ease over coming quarters. This, together with the lingering effects of the recent drought on production, could affect farm gate incomes and spending in the region.

Ongoing uncertainties relating to an expanded emission trading scheme, issues about water pricing, and the potential for the further spread of the Mycoplasma bovis cattle disease is likely to affect confidence in the region. With commodity prices set to weaken, this could push some farmers to sell their properties, resulting in more farms for sale at lower prices.

Tourist numbers are expected to increase further, mainly because a weakening New Zealand dollar will make the region more attractive to foreign tourists. The ability to take advantage of this additional demand will depend on the extent to which capacity constraints in the region have been addressed.

House prices are expected to grow at a faster rate than the national average. Internal migration should continue to support house prices, although the pace of growth is likely to slow as the gap between prices in the region and others starts to narrow. Other factors, such as increasing fixed mortgage rates, the introduction of regulatory changes targeting the housing market and the possible introduction of a capital gains tax at a later date are also likely to come into play, slowing sales volumes.

Taranaki/Manawatu-Whanganui

Activity levels in the region have improved slightly in the latest quarter and remain unchanged from the same quarter in the previous year. Activity is expected to moderate over the year ahead.

		Compared to	
Taranaki/Manawatu-Whanganui	Latest Quarter	Previous Quarter	5 Year Average
Regional economic confidence	23.3	17.3	17.4
Regional employment confidence	113.6	105.6	102.5
Unemployment rate (s.a.)	5.8%	5.8%	6.0%
Retail sales ($m, s.a.)	1,481	1,464	1,355
Passenger vehicle regos (s.a.)	3,290	3,563	2,976
Tractor regos (s.a.)	117	100	93
Guest nights (000, s.a.)	513	477	453
New dwellings consented (s.a.)	326	381	279
House sales (s.a.)	1,730	1,603	1,498
House price change, annual (s.a.)	9.3%	10.0%	6.3%
Net number of indicators rising compared to previous quarter			3
Net number of indicators rising compared to 5 year average			10

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

The region has benefited from higher commodity prices for logs, meat, dairy and horticulture products, although production is likely to have been affected dry weather conditions and the impact of ex-cyclone Gita. Higher farm gate incomes are likely to have translated into more spending, and this is probably what has driven growth in tractor sales in the region.

Higher crude oil prices, which have also trended upwards, will have contributed positively to the fortunes of the energy sector in the region, with positive knock-on effects for employment in industries such as engineering, geology, seismic and related industries.

Similar to other rural regions, Taranaki/Manawatu-Whanganui has benefited from growth in tourism. Although most tourists to the region are New Zealanders, growth in recent years has been driven by foreign arrivals. Being ranked by Lonely Planet as one of the top 10 regions in the world to visit may have helped in this regard.

Despite this, the labour market in the region remains relatively soft, with unemployment levels considerably higher than the national average. That said, the Taranaki region still has the third lowest number of people unemployed in the country. A lacklustre labour market is likely to be one of the key reasons why new vehicle sales have fallen and retail spending has been almost flat.

House prices in the region continue to outperform because of lower mortgage rates and increased inward migration, with more people being attracted to higher incomes in the region. Higher house prices might also reflect greater purchasing activity prior to the introduction of regulatory changes. While prices have grown strongly across the board, most of the growth has been in cheaper houses located in smaller towns, rather than in the major provincial centres.

The outlook for the region

An expected fall in crude oil prices and cheaper soft commodity prices are unlikely to be offset by an expected weakening of the New Zealand dollar. This is likely to have a negative impact on the energy sector as well as farm gate incomes.

That said, the region should continue to benefit from increasing tourist numbers from abroad. The recent announcement by Government that they will use the Provincial Growth Fund to invest in a number of regional tourism projects is likely to reinforce this positive trend. So too, an expected weakening of the currency and a growing awareness of the region's tourism potential, which might be enough to persuade more Kiwis to take their holidays closer to home.

However, confidence in the region's economic future is likely to have been severely dented by the Government's announcement that it would not be granting any more offshore licences for oil and gas exploration. The near-term impact on production is likely to be negligible, especially given that companies can still apply for onshore exploration licences for the next 3 years and that current exploration licences still have about a decade or so to run. However, with a line drawn firmly in the sand, it is likely that companies will ease back on investment in the region, with negative implications for employment, not just in the oil sector, but also associated industries.

House prices in the region are still expected to grow, but the pace of growth will slow. Key factors include a slowdown in migration to the region, expected increases in fixed mortgage rates, the implementation of regulatory changes to the housing market, and the possible introduction of a capital gain tax at a later date. Slower house price growth is likely to have negative implications for construction activity, which could result in more unemployment and lower levels of spending.

Waikato

Conditions in the Waikato have improved marginally in the latest quarter. Activity in the region is not much different to what it was last year, but remains well above the five-year average.

Waikato	Latest Quarter	Compared to Previous Quarter	Compared to 5 Year Average
Regional economic confidence	23.8	17.8	20.8
Regional employment confidence	114.4	111.3	106.2
Unemployment rate (s.a.)	4.7%	4.1%	5.3%
Retail sales ($m, s.a.)	2,067	2,032	1,814
Passenger vehicle regos (s.a.)	4,681	5,213	4,248
Commercial vehicle regos (s.a.)	1,626	1,628	1,266
Guest nights (000, s.a.)	912	846	796
New dwellings consented (s.a.)	796	929	718
House sales (s.a.) *	2,015	1,838	2,045
House price change, annual (s.a.)	6.5%	7.1%	9.7%
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
* House sales data includes Bay of Plenty and Waikato

Although production was adversely impacted by dry weather, the agricultural sector has benefited from higher dairy and meat prices and a slightly weaker New Zealand dollar. Rising farm gate incomes are likely to have increased optimism in the region's future.

The number of tourists visiting the region continues to grow, although the pace of growth is starting to moderate. Hamilton, traditionally not seen as a tourism destination, has benefited from being able to offer high quality accommodation at a cheaper rate than in Auckland, while still within easy access to Auckland's international airport. Tourism in the region has also benefited from its close proximity to tourism hotspots in neighbouring Bay of Plenty and the successful hosting of events such as the inaugural Hamilton Seven's rugby tournament.

The region's housing market continues to perform relatively well, with sales volumes continuing to increase. Growth has been driven by a rush to beat impending regulatory changes to the housing market, lower mortgage rates and by more people looking for affordable homes or investment properties in close proximity to the overheated Auckland market. While house prices in the region are significantly lower than in Auckland, they are catching up, with the number of million dollar homes sold in Hamilton having recently reached record highs.

Construction activity in the region is starting to slow with residential building consents having fallen for a couple of quarters. This is likely to be a reason why unemployment in the region has moved higher. Together with more difficult conditions in the agricultural sector, this might help explain why new passenger vehicle registrations have fallen sharply.

The outlook for the region

The agricultural sector is likely to be adversely affected by an expected easing in dairy and meat prices, which should more than offset a forecast weakening of the New Zealand dollar. Weaker operating conditions and lingering worries about what the Government's climate change and environmental policies might mean, are likely to undermine confidence in the sector. This could push some farmers to sell their properties, resulting in more farms for sale at lower prices.

Tourism will continue to bolster the fortunes of the region, especially if weaker economic conditions nationally encourage more Kiwis to holiday at home rather than go abroad. The region should also benefit from an expected increase in foreign arrivals, especially if the New Zealand dollar weakens.

House prices in the region are more likely to fall than rise later in 2018. Key to this will be a slowdown in population growth due to a fall in inward migration, and for Hamilton a narrowing of regional house price differentials with those in Auckland and Tauranga. The introduction of regulatory changes, increasing fixed mortgage rates and the possible introduction of a capital gains tax at a later stage are also likely to come into play.

Wellington

The Wellington region is among the top performers in the country. Activity in the region is well above that of the same time last year, and significantly above the five-year average. The outlook is mixed, with some deterioration in private sector activity being offset by a possible expansion of public sector activity.

Wellington	Latest Quarter	Compared to Previous Quarter	5 Year Average
Regional economic confidence	35.2	34.5	21.5
Regional employment confidence	115.3	113.3	104.1
Unemployment rate (s.a.)	3.5%	4.6%	5.3%
Retail sales ($m, s.a.)	2,230	2,219	2,025
Passenger vehicle regos (s.a.)	5,569	5,959	5,063
Commercial vehicle regos (s.a.)	1,480	1,352	987
Guest nights (000, s.a.)	784	763	737
New dwellings consented (s.a.)	561	634	445
House sales (s.a.)	2,176	2,036	2,154
House price change, annual (s.a.)	8.7%	11.0%	8.0%
Net number of indicators rising compared to previous quarter			3
Net number of indicators rising compared to 5 year average			10

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

The Wellington region is performing well and confidence in the region's economic prospects are now the highest in the country. With the new Government firmly in place, optimism about the future is likely to have been boosted by the possibility of more jobs in the capital.

This might also explain why employment confidence in the region has increased. The mood is also likely to have been lifted by a strong labour market. Unemployment rates have plunged while levels of employment have been boosted by stronger activity in the hospitality, healthcare and social assistance, business services and IT sectors. The retail sector, which has also experienced increased activity, has taken on more people.

House prices are increasing at growth rates that more closely resemble those found in rural regions, easily outpacing that of other metropolitan areas. An increase in population size, lower mortgage rates, an existing housing shortage, together with a headlong rush to beat looming regulatory changes targeting the housing market are likely to be the key factors driving house prices.

Improving labour market conditions, more tourism, increases in population size and strong house price growth have resulted in more spending. The success of Wellington's CBD in attracting more global brands is also likely to have contributed to this positive dynamic.

These factors are also likely to have contributed to the positive direction in other demand side indicators. Commercial vehicle registrations have increased, reflecting rising business confidence. Surprisingly, given the increase in house prices and the general sense of confidence in the region, passenger vehicles sales have fallen. This might be due to several cargo ships carrying vehicles having been turned away due to stink bug infestations.

The one negative factor that might be weighing on the region is a decline in building consents, which will eventually feed into construction activity. This is despite the fact that the region has a shortage of houses and a growing population. That said, building consents in prior quarters have been strong, suggesting that construction activity should remain buoyant in the immediate future.

The outlook for the region

The region is expected to continue to outperform in coming quarters, although the pace of activity should slow in line with the national economy.

The regional labour market is likely to remain tight, although perhaps not at current levels. The number of people employed in the public sector is likely to expand and this should have positive knock-on effects for industries that rely on government spending. However, tourism is unlikely to grow significantly from current levels, although accommodation guest nights could well increase because of more business activity in the region.

The housing market is likely to slow. Key to this will be a slowdown in population growth due to a fall in migration. The introduction of regulatory changes, increasing fixed mortgage rates and the possible introduction of a capital gains tax are also likely to come into play, although a small relaxation in loan-to-value ratios and a persistent housing shortage could provide support for house prices in the medium term.

As house price growth starts to ease at elevated levels, it is reasonable to expect a slowdown in house sales.

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