

Reversal of fortunes

Westpac-McDermott Miller Regional Economic Confidence, March 2019 quarter

Dominick Stephens, Chief Economist +64 9 336 5671

Paul Clark, Industry Economist +64 9 336 5656

- Regional confidence has deteriorated in eight out of eleven regions.
- The biggest falls in confidence were in Auckland, Nelson/Marlborough/West Coast, and Canterbury.
- Auckland is by far the most pessimistic region in the country.
- The only regions to report improved household confidence were fast growing Waikato and the Bay of Plenty, which is the most confident region in the country.
- Recent outperformers on the east coast of the North Island and the southern part of the South Island all experienced sharp drops in confidence as their overheating economies showed signs of cooling.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence deteriorated in the March 2019 quarter, with eight of eleven regions recording a fall. This contrasts to the previous quarter where all regions had posted gains.

The standouts were in the North Island. Confidence in the Waikato and neighbouring Bay of Plenty, two regions where economic activity has been absolutely fizzing, rose sharply, underpinned by an increase in the number of firms setting up shop, lower unemployment, and higher house prices.

With the exception of Wellington, confidence in the rest of the country has dipped. Some of the biggest falls were in Auckland and Canterbury, but for vastly different reasons. In Auckland, housing affordability is increasingly being cited as a key issue. Not so in Canterbury, where the slowing post-earthquake rebuild is the key factor.

Some regions that had outperformed in recent quarters have fallen away quite sharply. Gisborne/Hawkes Bay, Southland and Otago have all enjoyed an extended run of strong economic growth to the point where most, if not all, have overheated. As economic activity in these regions has begun to cool, so confidence levels have started to drop.

There are exceptions to this, but they are largely driven by one-offs. In the case of Taranaki/Whanganui-Manawatu, the drop in confidence is likely to be due to weaker crude oil prices and ongoing uncertainties about how Taranaki will transition itself way fossil fuels. For Nelson/Marlborough/West Coast, plunging confidence is likely to be a direct result of the large wildfires that affected the region in early February.

Regional Discussion

Northland: A net 20% of households in Northland expect their region's economy to improve over the next 12 months, compared to 24% in the preceding quarter. Household confidence in Northland continues to be buoyed by strong house price growth and a steady stream of people moving to the region. That said, the region has experienced a slight pickup in unemployment recently and concerns about the effects of dry weather conditions on agricultural production may have contributed to a slightly lower reading.

Regional economic confidence*

Region	Net Confidence (%)		
	Mar-19	Dec-18	Change
Northland	20	24	-4
Auckland	-10	16	-25
Waikato	34	16	18
Bay of Plenty	49	37	12
Gisborne/Hawke's Bay	48	52	-5
Taranaki/Manawatu-Whanganui	10	26	-16
Wellington	38	38	0
Nelson/Marlborough/West Coast	26	51	-25
Canterbury	19	36	-17
Otago	40	50	-10
Southland	36	51	-15

Source: Westpac McDermott Miller

*Regional economic confidence reflects the difference between the percentage of survey respondents that expect economic conditions in their region to improve and those that expect prospects to worsen over the next 12 months. Sample sizes and margins of error vary by region. The survey was conducted over 1-10 March 2019, with a total sample size of 1556.

Auckland: Confidence in this region plunged in the March quarter, with a net 10% of households feeling decidedly pessimistic about their region's economic future. Households in this region are by far the most downbeat in the country, with negativity very much in line with that of prior quarters. Much of this is likely to be because of ongoing concerns about housing affordability in the region. For property owners, softer house prices, the impact of the foreign buyer ban, and the possibility of a capital gains tax at some time in the future are likely to have loomed large.

Waikato: Households in the region are feeling increasingly confident about the future, with a net 34% of them expecting better times ahead. This represents a whopping 25% improvement on the previous quarter, the largest gain made by any region in the country. Much of this improvement has to do with the local economy being on a roll, with many new firms setting up shop in the region, especially in Hamilton. Unemployment in the region has also fallen, and house prices continue to grow. The expectation of more cash in pocket from government transfers is also likely to have lifted spirits. Rising dairy payment forecasts may also have buoyed confidence, although recent dry weather conditions will be a concern in this major dairy producing region.

Bay of Plenty: A net 49% of households in the Bay of Plenty expect their region's economy to improve over the next 12 months, compared to 37% in the preceding quarter. Households in this region are the most optimistic in the country, mainly because their economy is in overdrive. Firms continue to flood into the region, unemployment remains low and tourism activity is still going strong. The region has also benefitted from favourable conditions in the agricultural and forestry sectors, with most commodity prices holding up pretty well. That said, unseasonably dry weather conditions will be a concern in this horticultural region.

Gisborne/Hawke's Bay: Households in Gisborne and the Hawke's Bay are overwhelmingly positive about their region's prospects despite confidence dropping by 5% in the March quarter. A net 47% of households now expect the regional economy to improve over the next 12 months. The positivity in the region reflects favourable conditions in the agricultural and forestry sectors, strong population growth and accelerating house prices. However, with unemployment starting to pick up and construction activity slowing, there are some signs that this overheating economy might be cooling and this could be the reason for the slightly weaker reading.

Taranaki/Manawatu-Whanganui: A net 10% of households expect their region's economic prospects to improve over the coming year compared to 26% in the preceding quarter, making this region the second least optimistic in the country. This is a surprising result given that the region's economy has been performing well recently, with skyrocketing house prices, increased consenting activity and the resumption of the summer drilling campaign in Taranaki leading the charge. That said, confidence could have been hit by weaker crude oil prices and ongoing uncertainties about how Taranaki will transition itself away from fossil fuels.

Higher unemployment, particularly in the Manawatu, and growing concerns about the effect of dry weather conditions on agricultural production in the region may also have had an impact.

Wellington: Household confidence in this region's future economic prospects did not change in the March quarter. Confidence in the region remains high, and continues to be supported by strongly rising house prices, buoyant construction activity, increased demand for labour and more tourist arrivals. Expectations that Wellington will be the largest beneficiary of a big ramp-up in government spending and hiring over the coming year is also likely to have added to an air of positivity in the region.

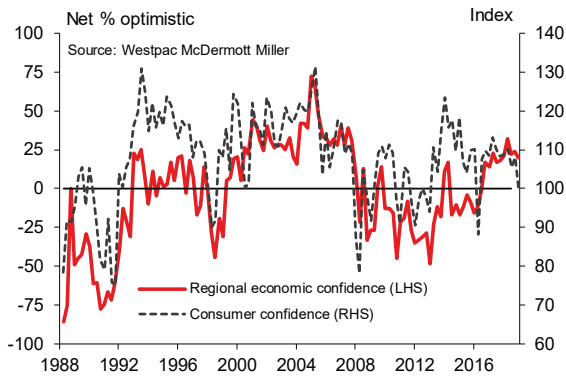
Nelson/Marlborough/West Coast: A net 26% of households expect their region's economy to improve over the next 12 months, a huge drop on the 51% recorded in the December quarter. Confidence in the region's future is likely to have been adversely affected by large wildfires that wreaked havoc in the Tasman region, resulting in large scale evacuations and property losses. That said confidence still sits mid-table and is likely to have been supported by above trend population growth, falling unemployment and rising commodity prices.

Canterbury: Our recent survey of regional economic confidence was conducted prior to the tragic events in Christchurch on the 15 March 2019. We would like to extend our deepest sympathy and condolences to those affected. Confidence in the Canterbury region fell sharply in the March quarter with a net 19% of households expecting the region's economy to improve over the next 12 months. This fall comes after a big increase in the previous quarter. Confidence in the region's future has remained low, mainly because of ongoing uncertainties about the drivers of regional activity once post-earthquake construction work has wound down. Sluggish house price growth and weakening demand for labour is unlikely to have helped matters.

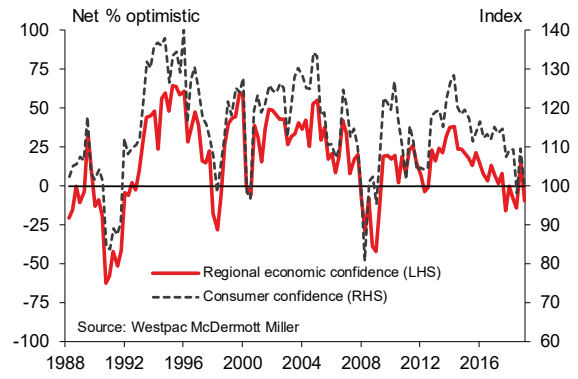
Otago: A net 40% of households expect their region's economic prospects to improve over the coming year compared to 50% in the preceding quarter. Confidence is likely to have been affected by signs that Otago's overheating economy has begun to cool, with construction activity and house sales volumes in the region softening recently. Despite this, households still remain pretty upbeat about the future, presumably because of buoyant conditions in the agricultural sector, increased tourist arrivals, close to double digit house price growth and falling unemployment.

Southland: Confidence in Southland fell 15% in the March quarter, with a net 26% of households expecting their regional economy to improve in the coming year. Southlanders have traditionally been among the most confident in the country, so the magnitude of the fall in confidence is quite surprising. Most of the drop is likely to be because economic activity in Southland has started to plateau, with unemployment picking up, house sales volumes falling and spending slowing. Worries about the impact of dry weather conditions may also have loomed large in this major dairy producing region.

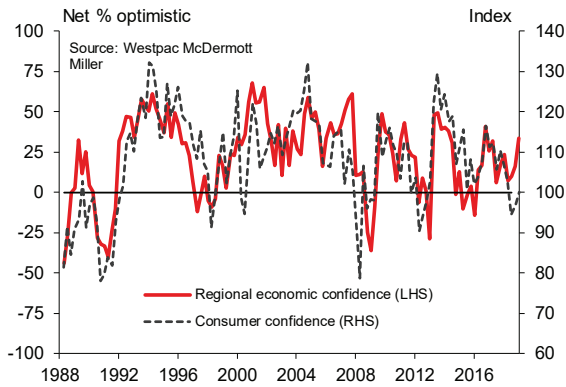
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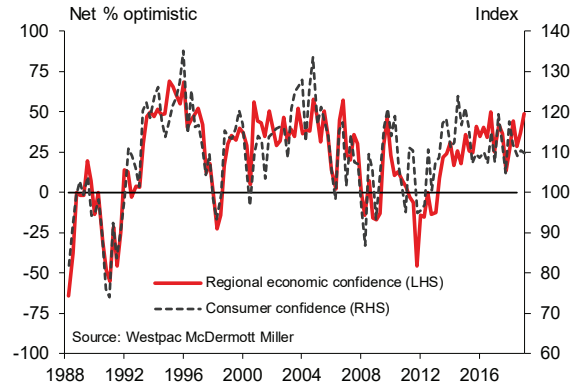
Auckland



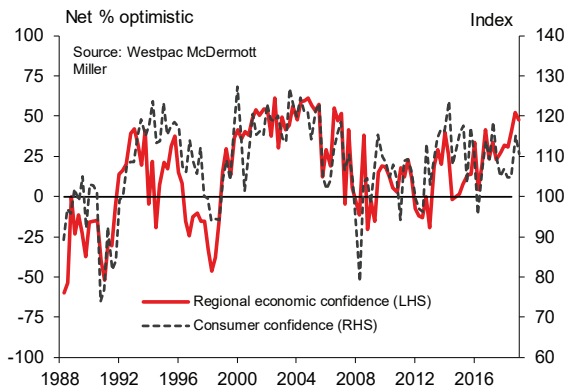
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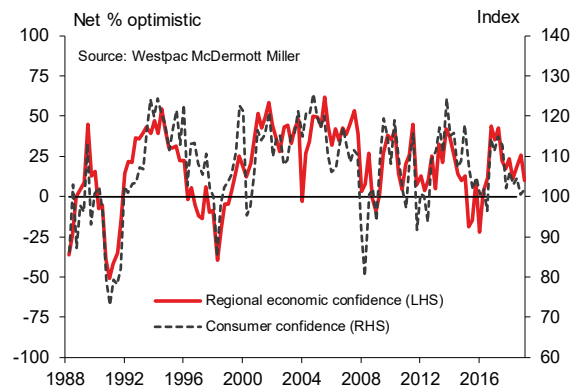
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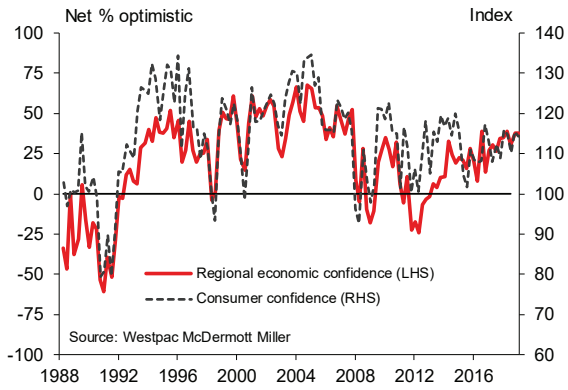
Gisborne/Hawke's Bay



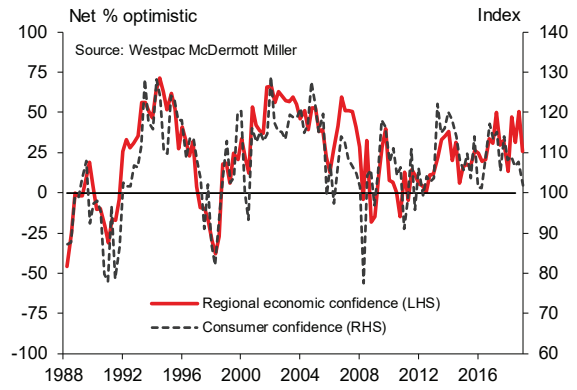
Taranaki/Manawatu-Whanganui



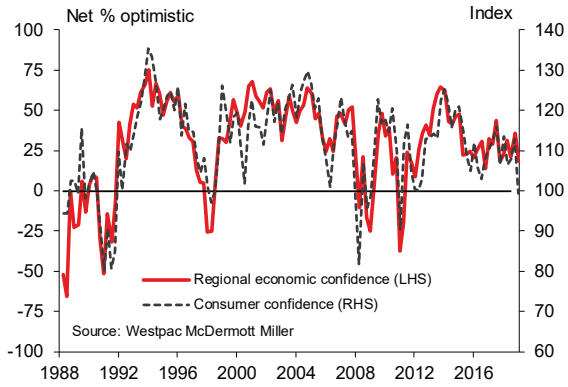
Wellington



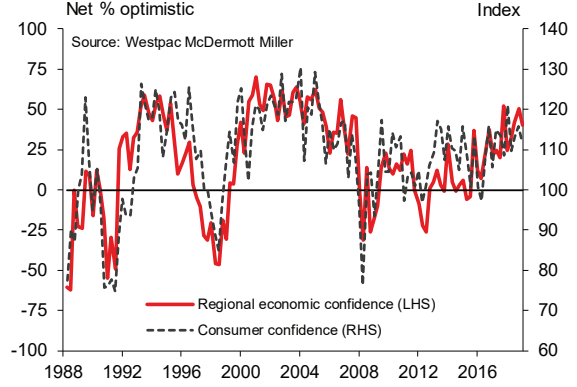
Nelson/Marlborough/West Coast



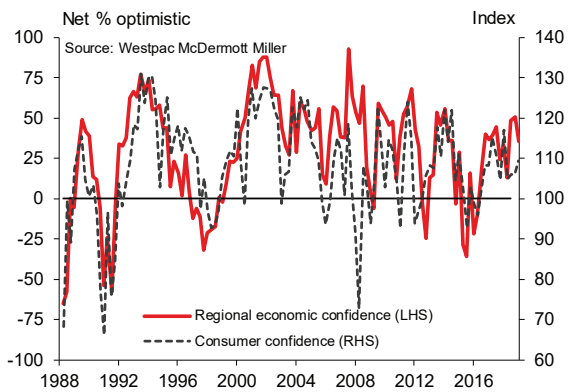
Canterbury



Otago



Southland



Contact the Westpac economics team

Dominick Stephens, Chief Economist +64 9 336 5671

Michael Gordon, Senior Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Anne Boniface, Economist +64 9 336 5669

Paul Clark, Industry Economist +64 9 336 5656

Any questions email: economics@westpac.co.nz

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