

Westpac McDermott Miller Regional Economic Confidence.

15 January 2020



Closing the gap – December 2019 quarter.

- Regional economic confidence bounced back after three consecutive quarters of decline.
- The three large metropolitan regions saw the biggest gains and have effectively closed the gap with the previously more confident rural regions.
- Dairy heavy regions recorded falls in confidence, largely reflecting broader concerns about the future direction of government environmental policy.
- Regions with higher exposure to forestry and tourism generally posted small gains.
- Northlanders are the most pessimistic about the future, followed by households in Waikato and Southland.
- The most optimistic region is the Bay of Plenty followed closely by Gisborne/Hawke's Bay.

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Regional economic confidence* (net confidence %)

Region	Dec-19	Sep-19	Change
Northland	2	2	0
Auckland	14	-1	15
Waikato	10	11	-1
Bay of Plenty	28	9	19
Gisborne/Hawke's Bay	27	20	7
Taranaki/Manawatu-Whanganui	15	11	4
Wellington	17	3	14
Nelson/Marlborough/West Coast	16	15	1
Canterbury	18	-2	20
Otago	14	10	4
Southland	10	19	-9

Source: Westpac McDermott Miller

*Regional economic confidence reflects the difference between the percentage of survey respondents that expect economic conditions in their region to improve and those that expect prospects to worsen over the next 12 months. Sample sizes and margins of error vary by region. The survey was conducted over 1-10 December 2019, with a total sample size of 1557.

According to the Westpac-McDermott Miller Regional Economic Confidence survey, regional economic confidence rebounded in the December 2019 quarter, following a series of declines. In total, eight of eleven regions reported a gain in confidence, one moved sideways, while two recorded falls.

The gap in household confidence between regions with large rural backbones, which were previously more optimistic, and those that have large metropolitan centres, which were previously pessimistic, has closed.

Gains in Canterbury and Auckland reflect the impact of rising house prices following a period of flat or falling house prices, while in Wellington its likely to be a combination of a resurgent housing market and ongoing government spending in the region.



Confidence rose in most rural regions, although mixed conditions ensured that gains were smaller. Farmers are enjoying strong product prices but remain concerned about the impact of regulation. This is especially true in dairy heavy regions, such as the Waikato and Southland. Meanwhile, spending by foreign tourists has slowed markedly in several key tourism spots. And the impact of lower log prices is still being felt in forestry regions.

The Bay of Plenty and Gisborne/Hawkes Bay have been the standout regions. Although they have a heightened exposure to lower log prices, both regions are experiencing stronger house price growth, increases in construction activity and elevated prices for a range of horticultural and/or meat products.

Regional Discussion.

Northland: Regional confidence in Northland is the lowest in the country after having moved sideways during the December quarter. A net 2% of households still expect their region's economy to improve over the next 12 months. Weak confidence is likely to reflect lower prices for logs, which despite having recovered somewhat from their falls earlier in the year, remain soft. Tourism to the region has softened, while residential consent approvals continue to trend downwards. That said, signs of a pickup in house prices is likely to have given some cause for cheer, while the region's farmers and growers continue to benefit from higher prices for meat and horticultural products.

Auckland: Regional confidence in Auckland rose sharply in the December quarter with a net 14% of households expecting better economic times for the region over the coming year. This compares to a net 1% of households that were feeling pessimistic in the September quarter. Improved confidence is likely to reflect an improvement in global economic sentiment and renewed positivity in the region's housing market following a period of flat to falling house prices. There has also been a small pickup in vehicle registrations and an increase in tourist spending, particularly from offshore visitors. Meanwhile unemployment seems to have stabilised at low levels, in part because of elevated levels of construction activity, but also a tentative improvement in regional manufacturing activity.

Waikato: Confidence in this region's economic prospects nudged slightly lower in the December quarter, with a net 10% of households expecting better times ahead compared to 11% in the previous quarter. Worries about how the Government's environmental policies might affect the dairy sector are likely to have skewed this result somewhat, while still low log prices are likely to be a cause for concern. Tourism spending in the region has also slowed while overall retail sales have softened. That said, farmers in the region will be buoyed by elevated dairy prices, while a re-energised housing market will have provided some cause for cheer among homeowners.

Bay of Plenty: Confidence in this region's economic fortunes surged to 28% in the December quarter, up from 9% previously. Households in the Bay of Plenty are now the most

optimistic in the country. In part this reflects the impact of a highly successful kiwifruit season, with progress having been made in getting fruit into Europe and China. Lower interest rates, rising house prices and a lift in construction activity, particularly in Tauranga, are also likely to have lifted the mood. That said, relatively weak log prices in this major forestry region will be a cause for concern, although the impact on harvesting has been minimal.

Gisborne/Hawke's Bay: A net 27% of households in Gisborne and the Hawke's Bay expect their region's economy to improve over the next 12 months, compared to 20% in the preceding quarter. Households in this region continue to be among the most confident in the country. In part this reflects conducive conditions in the horticulture and sheep and beef sectors, which continue to benefit from strong offshore demand. It's also because of a red-hot housing market which has seen double digit house price growth and rising sales volumes. At the same time, residential building consent approvals continue to trend upward while unemployment remains at historically low levels. That said, lower log prices could be a cause for concern for several smaller forestry operations that have cut back on harvesting.

Taranaki/Manawatu-Whanganui: A net 15% of households expect their region's economic prospects to improve over the coming year compared to 11% in the September quarter. Much of this is because of massive house price gains, particularly in the Manawatu, and an accompanying uplift in sales volumes. Meanwhile, a pickup in crude oil prices is likely to have lifted the mood in Taranaki. So too elevated prices for dairy and meat products, although concerns about the impact of the Government's environmental policies are likely to have loomed large. Uncertainties about the future direction of log prices and sluggish retail sales growth will have dampened sentiment.

Wellington: Household confidence in Wellington's economic prospects has partially rebounded from last quarter's plunge, rising to 17% in the December quarter. Much of this is because of a re-energised housing market, evidenced in large part by a sizable pickup in house prices, ongoing government spending on the local economy, sharply lower unemployment, and still elevated levels of construction activity. That said, rising rents and ongoing issues with the public transport system are unlikely to have gone down well in the capital.

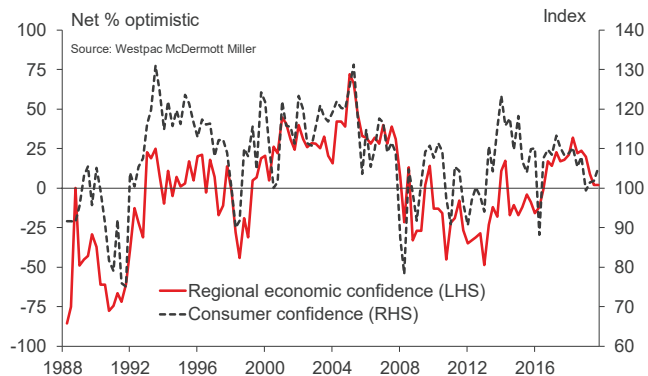
Nelson/Marlborough/West Coast: Confidence in this region's economic prospects nudged slightly higher the December quarter with a net 16% of households expecting better times ahead compared to 15% in the previous quarter. This slightly improved reading is likely to reflect higher house price gains, accompanied by a modest pickup in sales volumes. A strong horticultural season and higher prices for dairy and meat products are also likely to have helped while unemployment remains largely contained. That said, uncertainties about the future direction of log prices, worries about the impact of government environmental policies, weaker tourism numbers and sluggish spending overall are likely to have softened sentiment.

Canterbury: A net 18% of Cantabrians are expecting better times ahead for their region, a big turnaround on the net 2% who were pessimistic about the region's prospects in the September quarter. Although economic conditions in the region remain fragile in the post-earthquake recovery period, activity in both the services and manufacturing sectors are showing signs of picking up. Lower interest rates, rising house prices and growing sales volumes are also likely to have lightened the mood, while farmers in the region will have benefitted from rising dairy and meat prices.

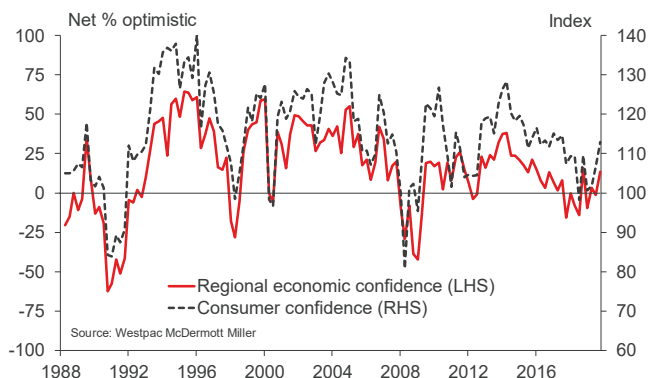
Otago: A net 14% of households expect their region's economic prospects to improve over the coming year compared to 10% in the preceding quarter. This slight improvement comes after a big drop in the previous quarter and is likely to be because of rising house price inflation, particularly in Dunedin and Queenstown, low unemployment and an increase in consumer spending. Farmers and growers in the region will also have been buoyed by elevated prices for dairy, meat and stone fruit. However, weak growth in tourism spending, particularly in the region's tourist hotspots, is likely to be of concern.

Southland: Confidence in Southland plunged from 19% in the September quarter to 10% in the December quarter. This is the fourth consecutive quarter where household confidence has fallen, and Southlanders are now the second least optimistic in the country. This is likely to reflect a growing sense of unease about the possible closure of the aluminium smelter at Tiwai Point and concerns about what this might mean for the Southland economy. Ongoing worries about how Government's environmental policies might affect the dairy sector also likely to have dampened sentiment. That said, the Southland economy right now is actually in fine fettle, buoyed in part by an outperforming housing market, elevated prices for dairy products and an increase in service sector activity.

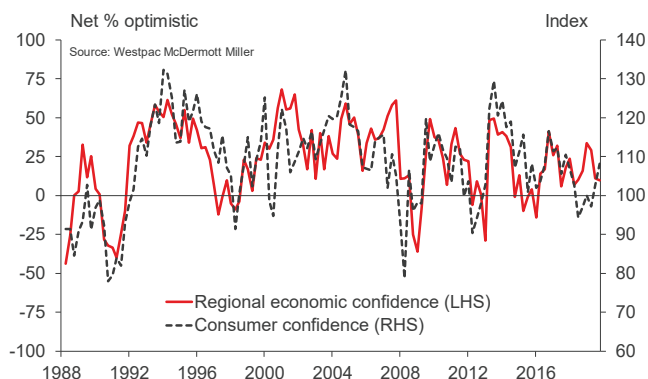
Northland



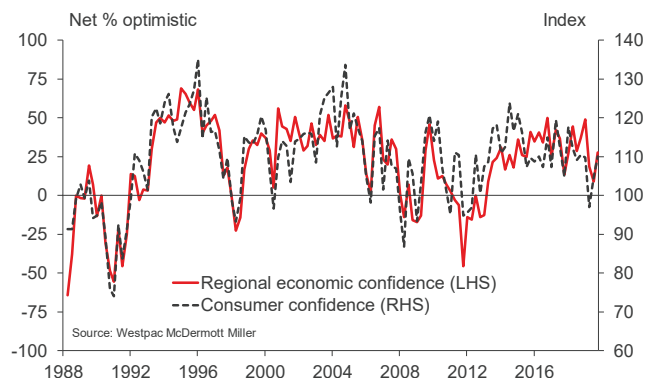
Auckland



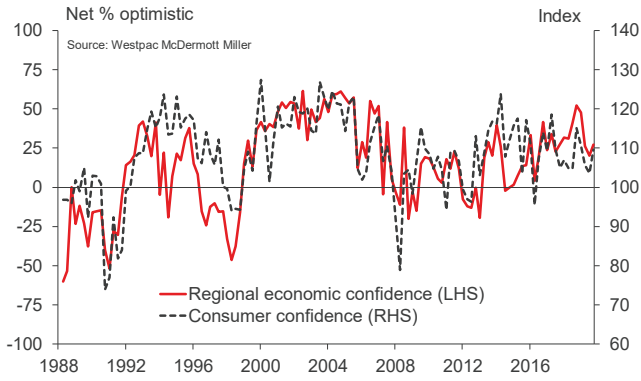
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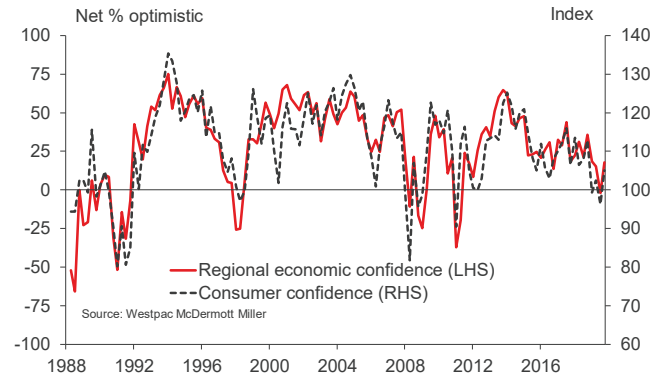
Bay of Plenty



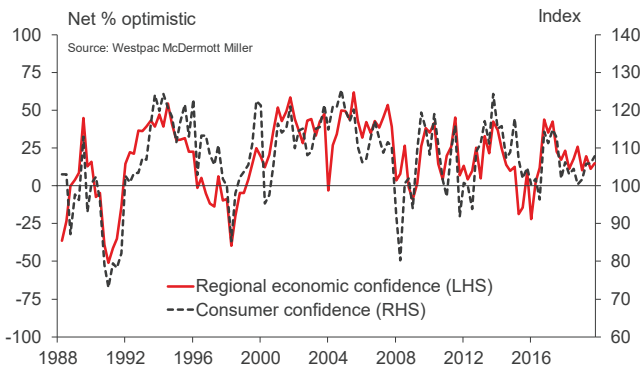
Gisborne/Hawke's Bay



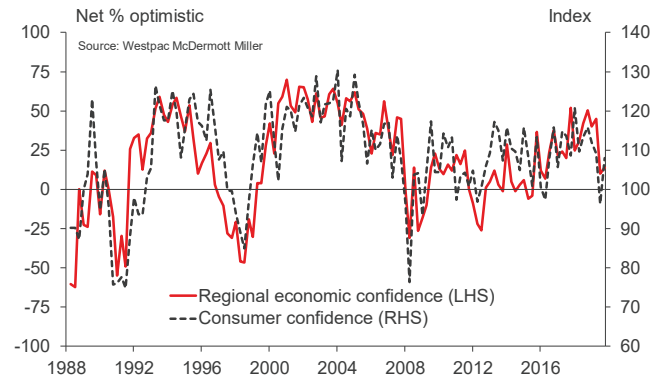
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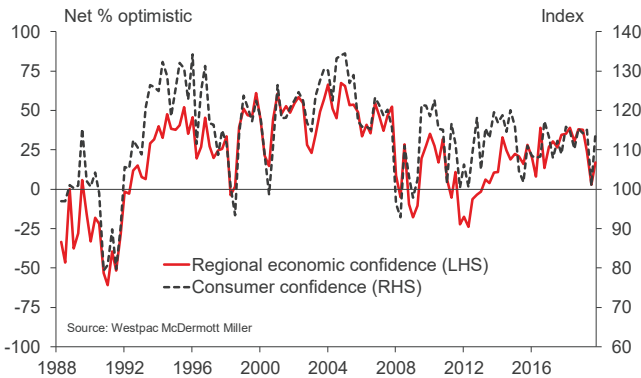
Taranaki/Manawatu-Whanganui



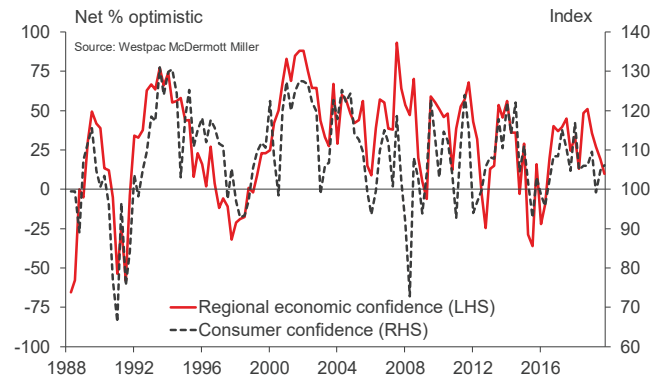
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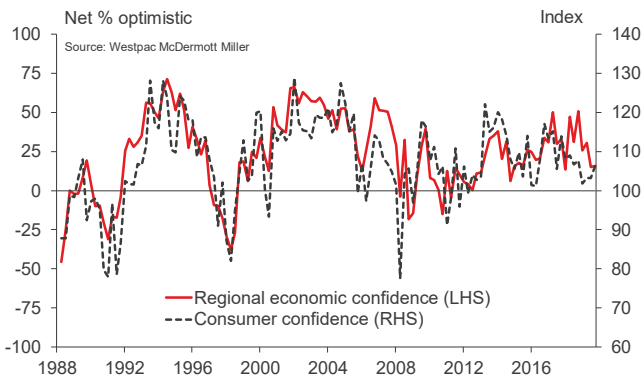
Wellington



Southland



Nelson/Marlborough/West Coast



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