

North to South

Q2 2012 Regional Economic Confidence falls

- **Households' confidence in their local economy fell in almost all regions, according to the Westpac McDermott Miller Regional Economic Confidence Survey.**
- **A notable exception was Canterbury, where economic confidence rebounded sharply and is now at its highest since the February 2011 earthquake.**

Regional economic confidence*

Region	Regional economic confidence (%)		
	Mar-12	Jun-12	Change
Northland	-35	-33	2
Auckland	7	-4	-11
Waikato	22	0	-22
Bay of Plenty	-14	-16	-2
Gisborne/Hawke's Bay	-8	-12	-4
Taranaki/Manawatu-Wanganui	13	4	-9
Wellington	-18	-24	-6
Nelson/Marlborough/West Coast	6	4	-1
Canterbury	8	25	17
Otago	-9	-22	-13
Southland	43	32	-11
National average	3	-4	-7

Source: Westpac McDermott Miller

* Regional economic confidence is the balance of respondents expecting good, as opposed to bad, economic times in their region over the coming year. Sample sizes, and margins of error, vary by region. The national average is weighted by the share of each region in the total population.

The Westpac McDermott Miller Regional Economic Confidence Survey, which asks households about their expectations for their local economy over the coming year, is telling a fascinating story of shifting fortunes among New Zealand's regions.

On the one hand, large parts of the country have started to feel the impact of a weaker global economy. Economic confidence fell sharply in the Waikato, as well as Otago, Southland, Auckland and Taranaki/Manawatu-Wanganui, all regions with a strong export base or international focus. Meanwhile, public sector cutbacks are increasingly weighing on economic confidence in the nation's capital (which is now the second most pessimistic region in the country), and possibly in Otago's education and health sectors as well.

By contrast, economic confidence leapt back up in Canterbury, surpassing the first flush of post-earthquake optimism we saw last September. In a clear sign that the repair and reconstruction of Christchurch is rapidly taking over from agriculture as a main driver of economic growth in New Zealand, Cantabrians' economic confidence is now not far behind Southlanders', though for now Southland still holds the top spot.

The survey was conducted over 1-10 June. The total sample size was 1570.

Northland: Northland is one of only two regions that saw regional economic confidence improve over the past three months. This may reflect some signs of life in the local economy, which is slowly recovering from the effects of past droughts and the housing bust. Even so, economic confidence in the region remains the lowest in the country, with a net 33% of households expecting mainly bad times over the year ahead.

Auckland: Regional economic confidence in Auckland fell sharply and is now pessimistic on balance, with a net 4% of households expecting mainly bad times over the year ahead. The region is at economic cross currents: it continues to be at the forefront of New Zealand's housing market recovery, but its economy is also relatively exposed to developments overseas, which have taken a turn for the worse.

Waikato: With a bumper dairy production season over, and Fonterra confirming a lower payout forecast for the season ahead, it's not surprising that economic confidence has tumbled in the Waikato. With as many optimists as pessimists, the region is not nearly as downbeat as some, but this is still the weakest that economic confidence in the region has been since mid-2009.

Bay of Plenty: Economic confidence in the Bay of Plenty region held up better than in some other parts of the country, and has improved considerably since December last year, just after the Rena oil spill disaster. But the region continues to face some significant challenges, not least the PSA blight that has devastated parts of the kiwifruit industry, and economic confidence remains lower than in many other regions.

Gisborne/Hawke's Bay: Regional economic confidence in Gisborne/Hawke's Bay has slipped further into pessimism, with a net 12% of households now expecting mainly bad times over the year ahead. Farmers and foresters are dealing with weaker global conditions, unemployment in the region is on the rise, and the Gisborne housing market remains weak.

Taranaki/Manawatu-Wanganui: Regional economic confidence in this diverse, but export-oriented region has fallen sharply. While households remain cautiously optimistic on balance (a net 4% expect mainly good times for the region over the coming year) this is the lowest that economic confidence in the region has been since late 2010. Declining returns for agricultural producers have surely played a role.

Wellington: Regional economic confidence in Wellington has fallen further into pessimism, with a net 24% of households now expecting bad times for the region over the year ahead. Households in the region haven't been this downbeat about prospects for their local economy since the early 1990s recession – not too surprising in view of public sector cutbacks and another tight Budget.

Nelson-Marlborough/West Coast: Economic confidence held up relatively well in this region, remaining cautiously optimistic – a net 4% of households continue to expect good times for the region over the year ahead. There are signs that the region has taken on both migrants and work as a result of the Canterbury earthquakes, supporting local housing markets and businesses.

Canterbury: Regional economic confidence in Canterbury has seen a major rebound from three months ago and is now the highest since the February 2011 earthquake. On balance 25% of households now expect good times for the region over the year ahead, making Canterbury the second most optimistic region in the country. While parts of the economy continue to struggle, repair and reconstruction work is underway, the market for non-damaged homes has continued to pick up, and retail spending is almost back at pre-quake levels.

Otago: Regional economic confidence in Otago has taken another sharp knock and is now the third lowest in the country, with a net 22% of households expecting mainly bad times over the coming year. Dunedin's housing market appears to have been losing some steam this year, and we suspect the region's tourism and agricultural sectors are feeling the impact from weaker conditions overseas. Government cutbacks may also be affecting the health and education sectors in the region.

Southland: The downturn in export markets has seen economic confidence in Southland come off from its dizzy December heights: back then a net 68% of households were upbeat for the region over the year ahead, now only 32% feel optimistic on balance. But economic optimism in the region is still by far the strongest in the country, with only Canterbury coming close.

Felix Delbrück
Senior Economist

Consumer confidence: regional breakdown

In this bulletin, we also report on the regional breakdown of the Westpac McDermott Miller Consumer Confidence Index. Separately from the Regional Economic Confidence Survey, this index summarises responses to questions about households' own financial situation, their expectations for the New Zealand economy as a whole, and their current willingness to spend.

Consumer confidence rose in Northland, Bay of Plenty and Southland, was roughly unchanged in Auckland, Taranaki/Manawatu-Wanganui, and Canterbury, and fell elsewhere. Even after these latest movements, Auckland continues to enjoy the highest consumer confidence, and is now the only region where the index is still clearly above 100 (i.e. in optimistic territory). Consumer confidence is lowest in the Waikato, which also saw the steepest fall.

In the details, expectations for the year ahead deteriorated in most regions, consistent with weaker regional economic confidence. However some regions saw a significant improvement households' assessment of their personal circumstances. Notably, Aucklanders felt significantly better off than three months ago and also expressed a greater willingness to spend. We suspect this reflects recent falls in mortgage rates as well as the region's buoyant housing market.

We were surprised to see consumer confidence in Canterbury fall, in contrast to the strong lift in economic confidence in the region. Cantabrians on balance were less positive about their personal financial situation (both now and in the future), though

they did express a greater willingness to spend. Meanwhile, we note that some regions are seeing an ongoing gap between regional economic confidence and consumer confidence, notably Southland (where regional economic confidence tends to be stronger than consumer confidence) and Wellington and Auckland (where consumer confidence tends to be stronger than confidence about the regional economy).

Consumer confidence by region

Region	Consumer confidence		
	Mar-12	Jun-12	Change
Northland	90.6	97.0	6.4
Auckland	104.7	104.3	-0.3
Waikato	103.6	90.4	-13.2
Bay of Plenty	95.6	96.9	1.2
Gisborne/Hawke's Bay	99.5	97.0	-2.5
Taranaki/Manawatu-Wanganui	100.7	100.1	-0.6
Wellington	106.2	100.5	-5.7
Nelson/Marlborough/West Coast	106.2	99.4	-6.8
Canterbury	100.5	100.0	-0.5
Otago	104.8	96.9	-7.9
Southland	94.0	96.8	2.8
National average	102.4	99.9	-2.5

Source: Westpac McDermott Miller

Westpac Economics Team Contact Details

Dominick Stephens , Chief Economist	Ph: (64-9) 336 5671	dominick_stephens@westpac.co.nz
Michael Gordon , Senior Economist	Ph: (64-9) 336 5670	michael_gordon@westpac.co.nz
Felix Delbrück , Senior Economist	Ph: (64-9) 336 5668	felix_delbruck@westpac.co.nz
Anne Boniface , Senior Economist	Ph: (64-9) 336 5669	anne_boniface@westpac.co.nz

For all clients: Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141, incorporated in Australia ("Westpac"). The information contained in this report: does not constitute an offer, or a solicitation of an offer, to subscribe for or purchase any securities or other financial instrument; does not constitute an offer, inducement or solicitation to enter a legally binding contract; and is not to be construed as an indication or prediction of future results. The information is general and preliminary information only and while Westpac has made every effort to ensure that information is free from error, Westpac does not warrant the accuracy, adequacy or completeness of the Information. The Information may contain material provided directly by third parties and while such material is published with necessary permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. In preparing the Information, Westpac has not taken into consideration the financial situation, investment objectives or particular needs of any particular investor and recommends that investors seek independent advice before acting on the Information. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice. Westpac expressly prohibits you from passing on this document to any third party. Westpac Banking Corporation is registered in England as a branch (branch number BR000106) and is authorised and regulated by The Financial Services Authority. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised and regulated by The Financial Services Authority. © 2011 For Australian clients: WARNING – This document is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.