

# Dry spots

## Q1 Regional Economic Confidence falls

- **Regional economic confidence has fallen sharply in several drought-afflicted North Island regions.**
- **Economic confidence has also slipped back a little in Canterbury and Auckland.**
- **Nevertheless Canterbury and Auckland – buoyed by post-earthquake building and a surging housing market – continue to stand out for their economic optimism.**

### Regional economic confidence\*

Region	Regional economic confidence (%)		
	Dec-12	Mar-13	Change
Northland	-28	-49	-20
Auckland	23	16	-7
Waikato	1	-29	-30
Bay of Plenty	-14	-13	1
Gisborne/Hawke's Bay	0	-19	-19
Taranaki/Manawatu-Wanganui	25	5	-20
Wellington	-4	-1	2
Nelson/Marlborough/West Coast	11	12	1
Canterbury	41	35	-6
Otago	1	5	4
Southland	-25	13	38
National average	13	5	-8

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.

Drought has caused economic confidence to evaporate in the rural parts of the North Island. The Westpac McDermott Miller Regional Economic Confidence survey showed regional economic confidence plunging to multi-year lows in Northland, Waikato, and Gisborne/Hawke's Bay, and falling sharply in Taranaki/Manawatu-Wanganui as well.

Outside these regions economic confidence was mostly little changed from three months ago, falling in Auckland and Canterbury and rising modestly elsewhere. On average across New Zealand, households' attitudes towards their local economy remain cautiously optimistic, with Canterbury leading the rest of the country by far, followed at a distant second place by Auckland.

The survey was conducted over 1-10 March. The total sample size was 1582.

**Northland:** Northlanders' economic confidence has plummeted from already low levels, as dry weather has hit an economy only just emerging from the after-effects of previous droughts and a lingering housing bust. The last time economic confidence fell to similar levels was in late 2010 (another drought year), and the last time it was lower was way back in the early 1990s recession.

**Auckland:** Economic confidence in Auckland has lost some of its recent shine, falling from a net 23% to a net 16% optimistic. Even so Auckland remains the second most optimistic region in the country after Canterbury. And small wonder, given that the housing market continues to surge ahead.

**Waikato:** Economic confidence in the Waikato has plunged into pessimism, falling to its lowest level since March 2009. The region is now the second most pessimistic in the country after Northland. Drought has clearly hit local dairy farmers hard, with rising global prices providing little in the way of immediate comfort. The demise of Solid Energy won't have helped either.

**Bay of Plenty:** Economic confidence in the Bay of Plenty remains weak, but has improved marginally over the last three months. This surprised us given the big hit to economic confidence in other drought-affected areas. What's more, the Bay of Plenty economy continues to face a range of other challenges, including the PSA blight which has devastated kiwifruit farmers, high unemployment, and the elevated NZ dollar.

**Gisborne/Hawke's Bay:** Economic confidence in the region has plunged back into pessimism as dry weather has hit farmers in the region (drought wasn't officially declared until after this survey). Economic confidence is now the lowest since late 2008. Other factors continuing to weigh on economic optimism are high unemployment, a Gisborne property market in the doldrums, and the high NZ dollar.

**Taranaki/Manawatu-Wanganui:** Three months ago, this region enjoyed one of the highest levels of economic optimism in the country. Drought has eroded much of that lead, with only the Waikato suffering a bigger decline in economic confidence. The fact that the region remains marginally optimistic reflects several positives, including an expanding energy industry, the lowest unemployment rate in the North Island, and modestly rising house prices.

**Wellington:** Economic confidence in Wellington remains pessimistic, but has improved for the third time in a row and is now the highest since September 2011. There may be a growing sense that the Wellington economy is adjusting to years of public sector cutbacks, and the region's housing market is now slowly improving.

**Nelson/Marlborough/West Coast:** Regional economic confidence in this diverse, but export-focused region has improved slightly and is now above the national average. We were braced for worse given the demise of Solid Energy and the fact that the West Coast has suffered its share of dry weather. A modestly improving Nelson housing market and spillovers from the Canterbury rebuild may be providing some offset.

**Canterbury:** Economic confidence in Canterbury has fallen back slightly, its first decline in a year. Even so confidence in the region remains firmly optimistic, by far outstripping the rest of the country. The rebuild is now firmly underway, and on most indicators the Canterbury region continues to charge ahead.

**Otago:** While economic confidence in Otago remains below the national average, it has improved for the second time running and is now the highest since September 2011. A perkier global economy, low unemployment, and slowly improving property markets in Queenstown and Dunedin may be driving the gradual recovery in economic optimism.

**Southland:** Southlanders' economic confidence saw by far the biggest lift of any region, rising from deep pessimism back to cautious (by Southland's usual standards) optimism. The aluminium smelter at Tiwai Point remains embattled, but unlike the North Island Southland has enjoyed a stellar growing season, while benefiting from the surge in dairy prices caused by the drop in New Zealand's overall milk production.

**Felix Delbrück** - Senior Economist  
**Dominick Stephens** - Chief 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 buy a major household item.

Consumer confidence rose modestly in all regions except Northland, Gisborne/Hawke's Bay, and Wellington. The fall in Wellington was big enough to cause the national average to fall slightly from three months ago. Wellingtonians' reported financial situation continues to improve (it's now the best since June 2011). However their future outlook (both for their own situation and the national economy) has had a setback, and they have also become less willing to buy major household items.

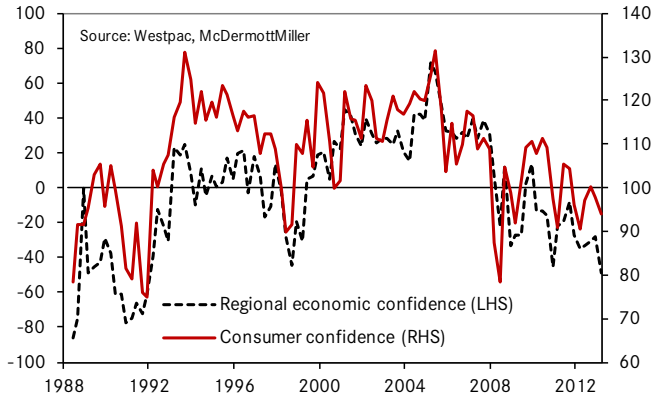
Readers will note the divergence between regional economic confidence and consumer confidence in some drought-affected regions - particularly Waikato and Taranaki/Manawatu-Wanganui, where households' confidence in their local economy plunged but consumer confidence rose slightly. It looks as if people expect the regional economy to suffer, but their own finances and the national economy to stay relatively resilient. Depending on how long the drought lingers that resilience may not last. Looking back at recent drought episodes (Waikato and Taranaki in early 2008, Northland in early 2010), consumer confidence continued to fall even after regional economic confidence had bottomed out.

## Consumer confidence by region

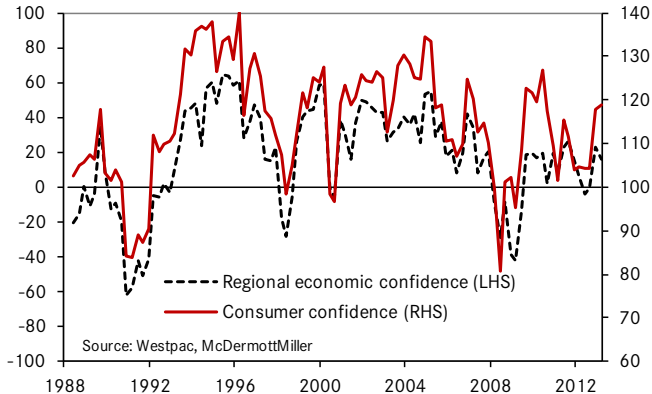
Region	Consumer confidence		
	Dec-12	Mar-13	Change
Northland	97.8	94.1	-3.8
Auckland	117.9	119.0	1.1
Waikato	97.8	102.8	5.0
Bay of Plenty	100.6	107.5	6.9
Gisborne/Hawke's Bay	113.0	103.1	-10.0
Taranaki/Manawatu-Wanganui	109.1	111.2	2.2
Wellington	118.1	105.0	-13.1
Nelson/Marlborough/West Coast	102.7	103.6	0.9
Canterbury	112.8	113.3	0.6
Otago	106.0	109.3	3.3
Southland	105.7	108.2	2.5
National average	111.1	110.8	-0.3

Source: Westpac McDermott Miller

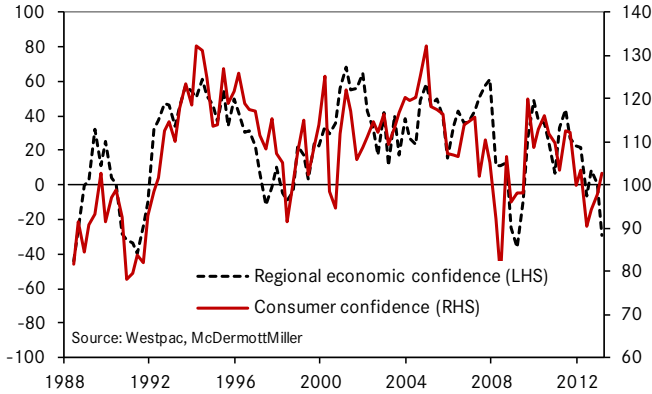
### Northland



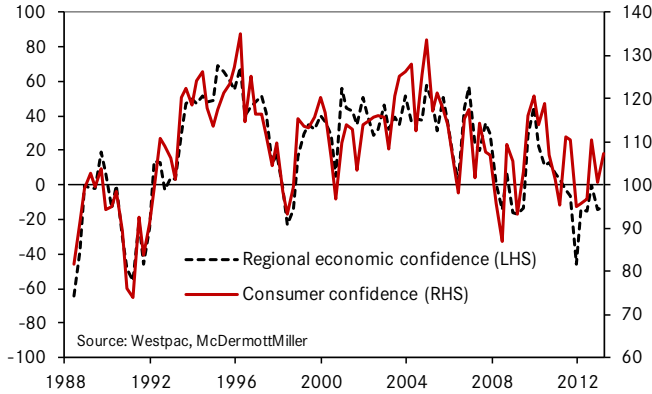
### Auckland



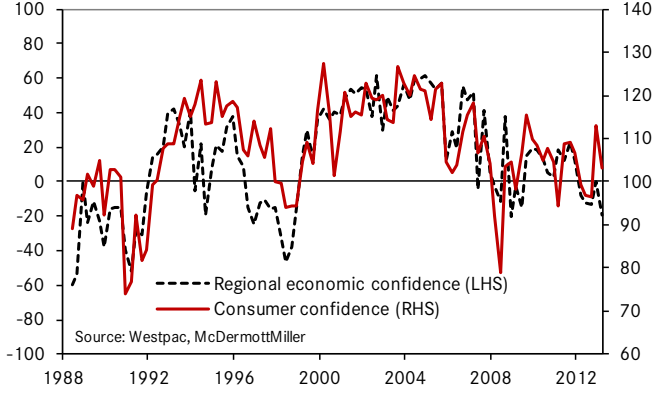
### Waikato



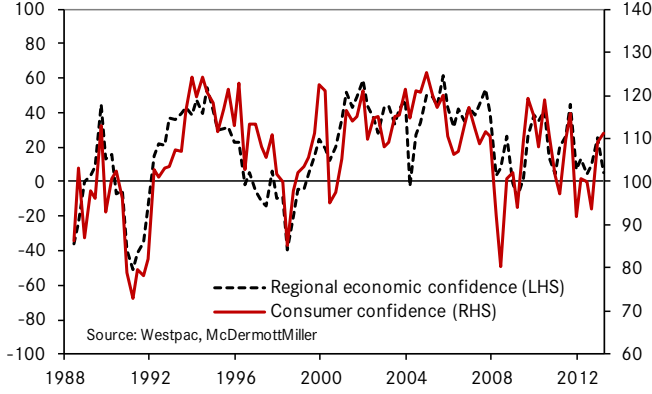
### Bay of Plenty



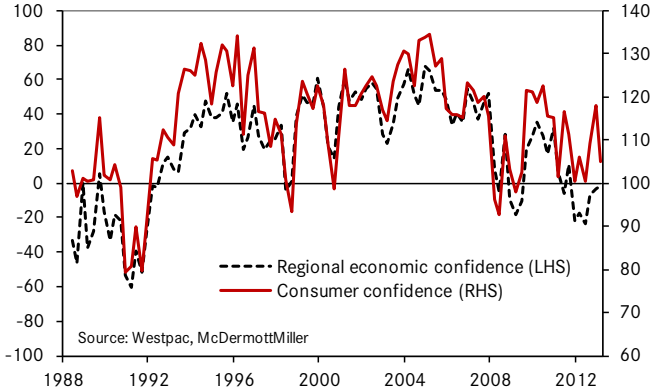
### Gisborne/Hawke's-Bay



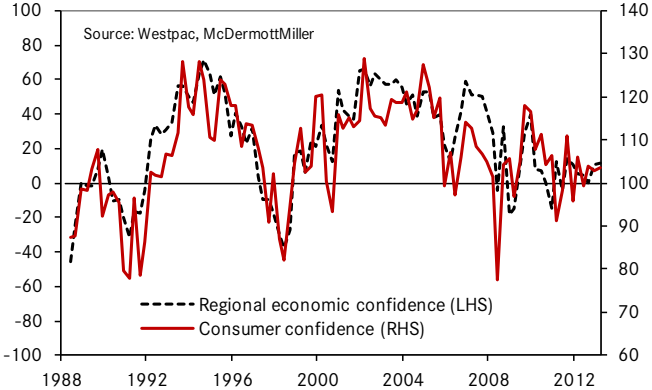
### Taranaki/Manawatu-Wanganui



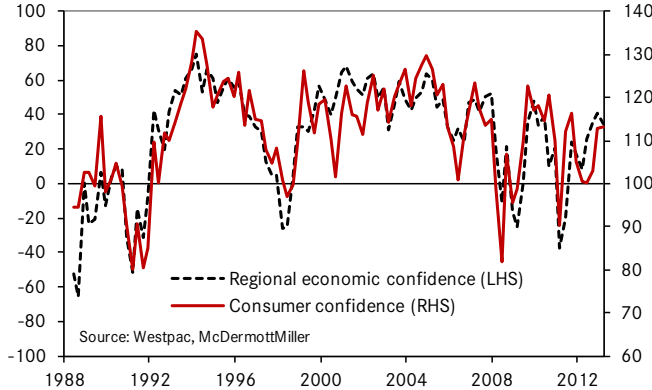
### Wellington



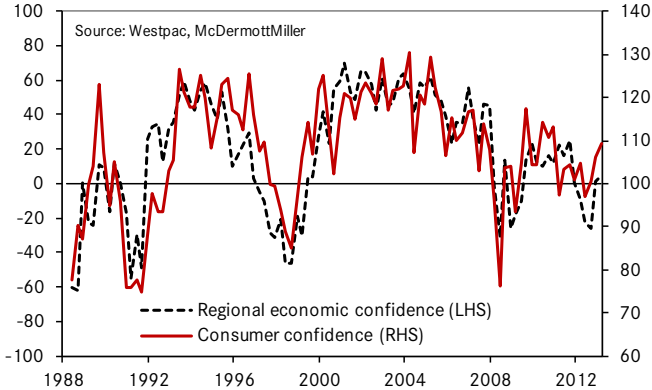
### Nelson/Marlborough/West Coast



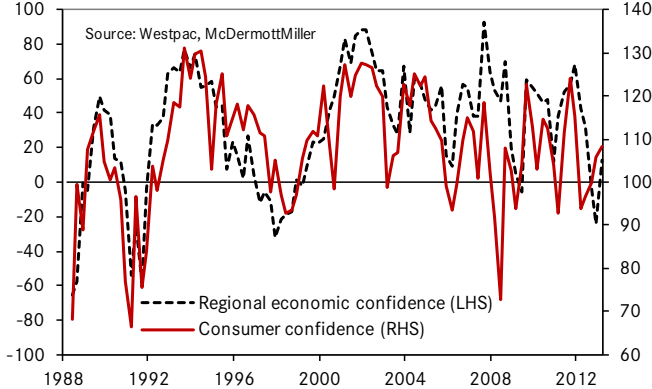
### Canterbury



### Otago



### Southland



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