

A patchwork economy

Q4 Regional Economic Confidence improves

- **Households' confidence in their local economy rose in 7 out of 11 regions.**
- **Economic confidence in Canterbury remains highest by far. However, Aucklanders' economic confidence has also risen sharply, boosted by an increasingly exuberant housing market.**
- **Economic confidence generally remains subdued elsewhere.**

Regional economic confidence*

Region	Regional economic confidence (%)		
	Sep-12	Dec-12	Change
Northland	-31	-28	3
Auckland	-1	23	24
Waikato	9	1	-8
Bay of Plenty	0	-14	-14
Gisborne/Hawke's Bay	-13	0	13
Taranaki/Manawatu-Wanganui	10	25	15
Wellington	-7	-4	3
Nelson/Marlborough/West Coast	0	11	10
Canterbury	36	41	5
Otago	-26	1	27
Southland	-3	-25	-22
National average	3	13	10

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 latest Westpac McDermott Miller Regional Economic Confidence survey showed economic confidence rising in most parts of the country. However, big divergences remain among the regions, mirroring New Zealand's multi-speed economy.

Economic confidence in Canterbury continues to lead the pack by a wide margin. Cantabrians' optimism for their region's economy over the year ahead took another big step up and is now the highest since late 2009.

In a major turnaround from the last survey, Auckland is now also firmly back in optimistic territory. We're in little doubt that an increasingly exuberant housing market is feeding through to broader economic confidence in the region.

Developments were mixed in the more export-oriented regions, with confidence rising in some (Taranaki/Manawatu-Wanganui, Gisborne/Hawke's Bay, and Nelson/Marlborough/West Coast) and falling in others (Waikato, Bay of Plenty, and Southland). While dairy prices have risen and there are signs that global economic conditions are improving, overall the level of confidence in most of these regions is still cautiously optimistic at best, a reminder that export conditions remain tough. The big exception is Taranaki/Manawatu-Wanganui, where economic confidence is

now even higher than in Auckland. Optimism for the region's oil and gas industry may be playing a special role here.

Public sector cutbacks have been an additional factor weighing on the local economy in Wellington and to some extent in Otago as well. We were therefore particularly heartened to see economic confidence in both improving (significantly so in Otago), though it remains weak.

The survey was conducted over 1-10 December. The total sample size was 1577.

Northland: Northlanders' economic confidence has improved modestly for three quarters now. However, it continues to be the lowest in the country, with a net 28% of households expecting mainly bad economic times over the year ahead. The region is still recovering from a housing bust and at over 10% its unemployment rate is the highest in the country.

Auckland: Economic confidence in Auckland shot up from marginally pessimistic to firmly optimistic, with a net 23% now expecting mainly good times in the region over the year ahead. The region's housing market has gone from strength to strength, and its manufacturing sectors may be starting to see light at the end of the tunnel.

Waikato: Economic confidence among Waikato households has fallen back, with optimists now only just outnumbering pessimists (a net 1% expect mainly good times over the year ahead, down from 9% three months ago). While global dairy prices have risen off their lows, the forecast payout is still lower than last season.

Bay of Plenty: Economic confidence in the Bay of Plenty has dropped back into pessimism, with a net 14% now expecting mainly bad times over the year ahead. The region continues to face a range of challenges, including the impact of the PSA blight on kiwifruit growers, a weak construction sector, and difficult conditions for the tourism industry.

Gisborne/Hawke's Bay: Economic confidence in the region has improved and there are now as many optimists as pessimists. Exporters in the region continue to face pressure from a high NZ dollar, but global economic conditions look a little brighter than earlier in 2012.

Taranaki/Manawatu-Wanganui: Economic confidence in the region has shot up – it's now the second most optimistic after Canterbury, with a net 25% of households expecting mainly good economic times over the year ahead. This diverse region has the lowest unemployment rate in the country, house sales in Taranaki have picked up, and the local dairy and oil industries have both seen global prices lift off their mid-year lows.

Wellington: Economic confidence in Wellington has improved for a second month, but remains marginally pessimistic: a net 4% of households still expect mainly bad times over the year

ahead. Hobbit fever may have contributed to the lift, but activity in the housing market has also picked up and there may be a growing sense that the worst is over for the public sector.

Nelson/Marlborough/West Coast: Economic confidence has rebounded and is once again cautiously optimistic, with a net 11% of households expecting mainly good times over the year ahead. With the global economy stabilizing, the region's diverse export base may be starting to see its prospects improve. We have also heard anecdotes that local businesses have seen demand increase as a result of the Canterbury earthquakes.

Canterbury: Economic confidence in Canterbury has surged for a third time in a row and continues to lead the rest of the country by a mile. A net 41% of households in the region now expect mainly good times over the year ahead – the highest since December 2009 and, before that, late 2007. The earthquake repair and rebuild effort is now clearly underway. While parts of the region are still struggling, on most indicators the Canterbury economy has been steadily marching upwards in the last six months.

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 in most regions. The biggest increases were in Gisborne/Hawke's Bay, Taranaki/Manawatu-Wanganui and Auckland, which saw a broad-based improvement in all the component questions of the index. Canterbury saw a decent lift in consumer confidence as well (to the highest in a year), but this was mainly due to greater optimism about the future. Cantabrians continue to see current conditions as difficult and there was actually a small fall in their willingness to spend on big-ticket items.

As a result of these latest moves, consumer confidence is now highest in Auckland (where households are the most upbeat on their financial situation) and Wellington (where the sense is strongest that now is a good time to buy big-ticket items). Strong consumer confidence in Auckland isn't too surprising – there tends to be a close relationship between the housing market and broader consumer spending, and the Auckland housing market is running hot. The fact that Wellingtonians

Otago: Economic confidence in Otago has rebounded sharply from its lows of three months ago and is now marginally optimistic: a net 1% of households expect mainly good times over the year ahead. The region has been hit hard by a difficult exporting environment and government cutbacks, which have affected the local health and education sectors. However, with recent signs of improvement in the global economy prospects may be looking less gloomy for the region's farmers and tourism operators.

Southland: Southland's regional economic confidence has fallen further, with a net 25% of households expecting mainly bad times over the year ahead, the most pessimistic the region has been since the Asian crisis in the late 1990s. Southland is now the second most pessimistic region in the country after Northland, a stunning reversal of its standout optimism just 6 months ago. We suspect the job cuts and the threat of closure at Tiwai Point have hit sentiment in the region hard.

Felix Delbrück

Senior Economist

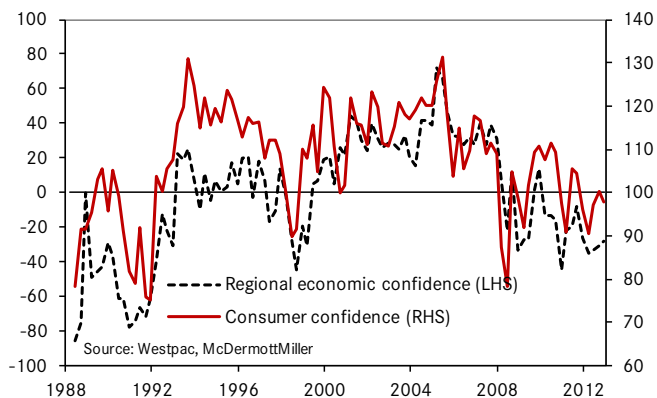
are so keen to spend is more puzzling, and suggests that cheap prices are playing a role as well, helped by the high NZ dollar. Of course, the high exchange rate has also depressed incomes for some, particularly in rural and more export-focused regions, where confidence generally remains weak.

Consumer confidence by region

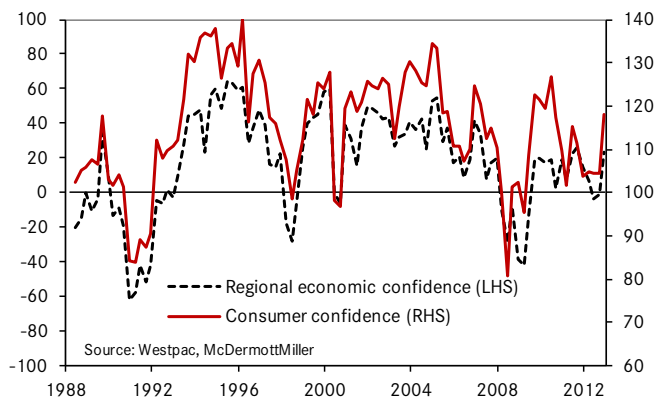
Region	Consumer confidence		
	Sep-12	Dec-12	Change
Northland	100.2	97.8	-2.4
Auckland	104.5	117.9	13.4
Waikato	94.2	97.8	3.6
Bay of Plenty	110.6	100.6	-10.0
Gisborne/Hawke's Bay	96.3	113.0	16.7
Taranaki/Manawatu-Wanganui	93.8	109.1	15.3
Wellington	109.4	118.1	8.7
Nelson/Marlborough/West Coast	104.0	102.7	-1.3
Canterbury	102.9	112.8	9.8
Otago	100.6	106.0	5.4
Southland	99.8	105.7	5.9
National average	102.5	111.1	8.6

Source: Westpac McDermott Miller

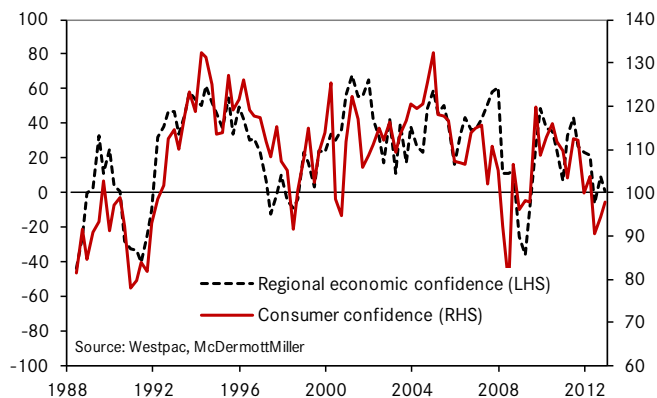
Northland



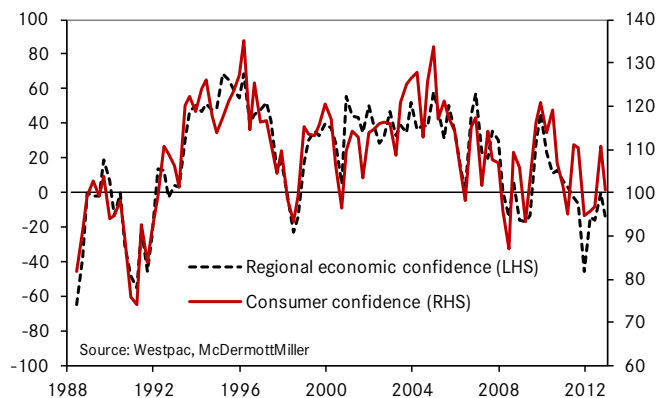
Auckland



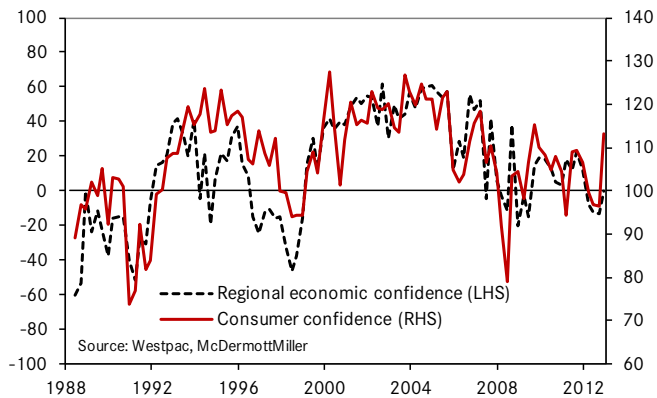
Waikato



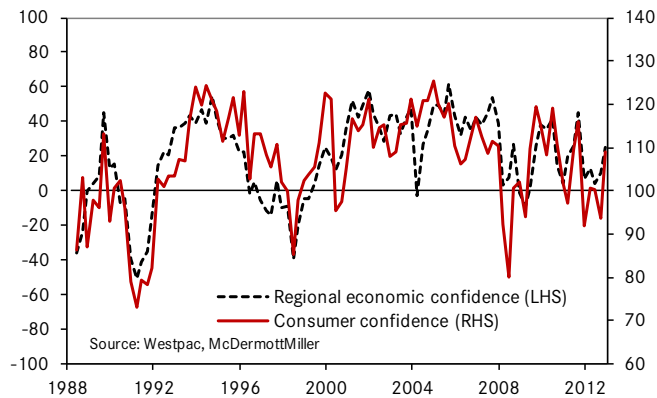
Bay of Plenty



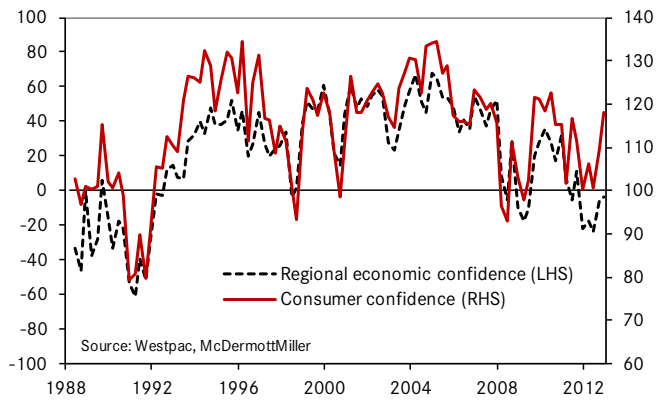
Gisborne / Hawke's-Bay



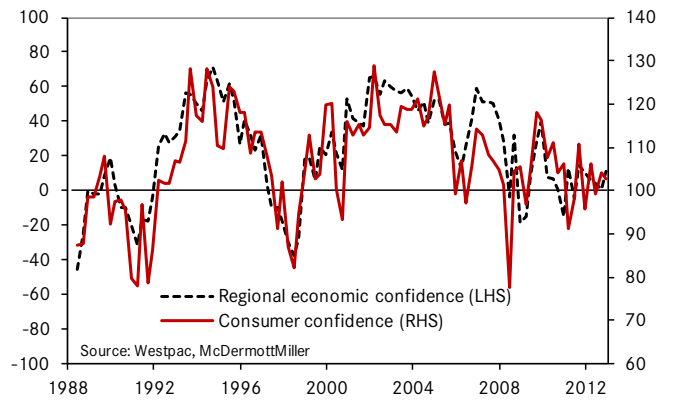
Taranaki/Manawatu-Wanganui



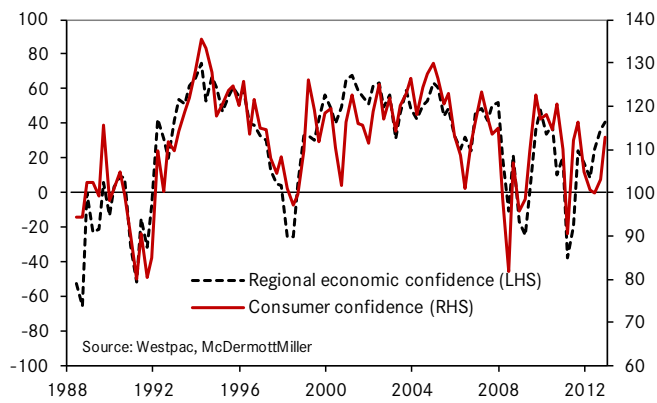
Wellington



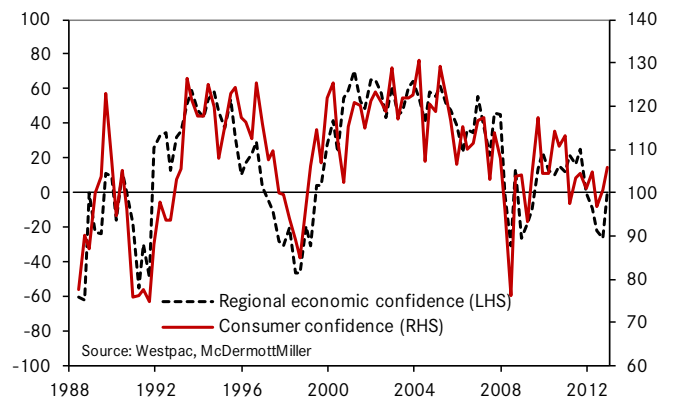
Nelson-Marlborough/West Coast



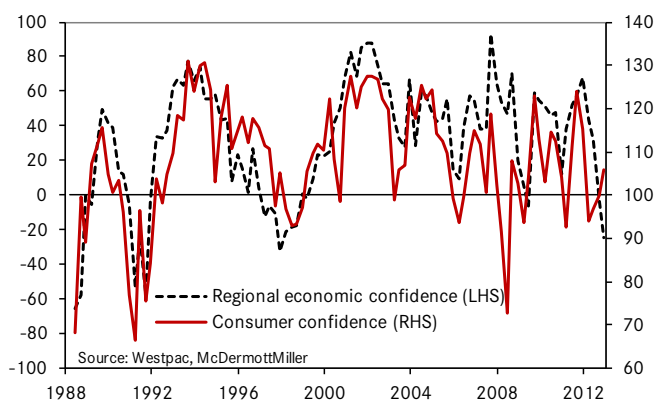
Canterbury



Otago



Southland



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