

Q2 Regional Economic Confidence

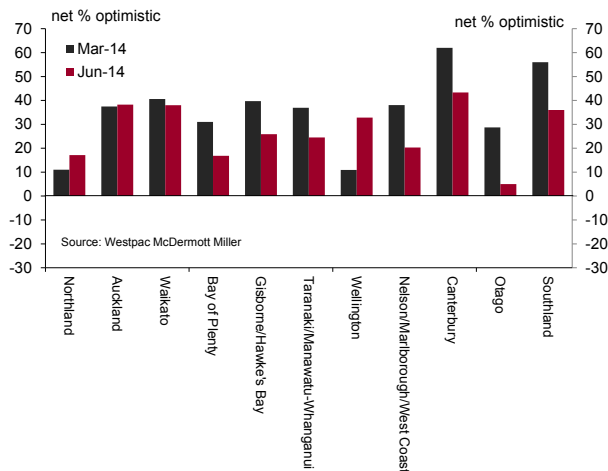
Economic confidence declines in most regions

- Regional economic confidence remains in optimistic territory throughout New Zealand. However the degree of optimism has faded in most regions.
- Nationwide it is likely that rising interest rates and falling dairy prices are combining to dent confidence, particularly in rural centres.
- Economic confidence also fell in Canterbury. Cantabrians remain more optimistic about prospects for their local economy than any other region in New Zealand, but not by much.

Regional economic confidence*

Region	Regional economic confidence (%)		
	Mar-14	Jun-14	Change
Northland	11	17	6
Auckland	37	38	1
Waikato	41	38	-3
Bay of Plenty	31	17	-14
Gisborne/Hawke's Bay	40	26	-14
Taranaki/Manawatu-Whanganui	37	24	-12
Wellington	11	33	22
Nelson/Marlborough/West Coast	38	20	-18
Canterbury	62	43	-19
Otago	29	5	-24
Southland	56	36	-20
Nationwide	37	32	-5

Regional economic confidence



Source: Westpac McDermott Miller

*Regional economic confidence is the balance of households expecting good, as opposed to bad, economic times in their region over the coming year, as a percentage of total number of households. 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 survey was conducted over 1-10 June, with a total sample size of 1565.

Right around the country, economic confidence remains in optimistic territory. However in most regions, consumers aren't quite as upbeat about prospects for their local economies as they were three months ago. This largely comes as no surprise. While the NZ economy as a whole is growing strongly, a number of the key drivers of recent growth have started to lose some of their lustre.

International dairy prices have fallen sharply, which for dairy farmers means this season's payout is forecast to be well down on last season's record breaking level. In addition, housing markets in many parts of the country have slowed under the weight of LVR restrictions and rising mortgage rates. What's more, the Reserve Bank hasn't been shy in telling consumers that interest rates are set to rise much further from here.

Yet while the broad trend in today's survey wasn't surprising, some of the details did leave us scratching our heads. For example, economic confidence in New Zealand's dairy heartland, the Waikato, was pretty resilient, while in Auckland confidence actually improved despite clear signs of a slowing housing market.

Meanwhile, some long-downbeat regions have moved further into optimistic territory, in keeping with other signs of local economic life. We were particularly struck by a major lift in Wellingtonians' economic confidence, to its highest level since mid-2010. One slightly surprising exception was Otago – confidence there has fallen back to very cautiously optimistic levels and is now the lowest in the country.

Regional Roundup

Northland: Bucking the nationwide trend, economic confidence improved, moving further into what remains relatively unfamiliar optimistic territory. Over the last year or so, we've seen improvement in many key indicators of activity in the Northland region. The unemployment rate has fallen, house prices have posted modest gains, and new car registrations have picked up strongly. While many of these indicators are still lagging behind national averages, their recent improvement appears to be inspiring stronger economic optimism in the region.

Auckland: Although the housing market is often a favourite topic of conversation amongst Aucklanders, the slowing housing market and rising interest rates appear to have done little to dent locals' confidence about prospects in their regional economy. Confidence edged a touch higher in June, lifting the region to second equal in the ranks after Canterbury. Retail sales growth remains robust, employment growth picked up in the March quarter and residential building consents have continued to trend higher.

Waikato: The dairy industry forms the backbone of the Waikato economy, so it was surprising to see economic confidence in the region remain relatively unshaken by the big fall in dairy prices and a much lower opening payout forecast for the 2014/15 season. Perhaps partially offsetting the headwind of lower dairy prices, there has been a sizable lift in commercial consent issuance, and the volume of farm sales in the region has continued to rise, while farm prices in the region have been relatively buoyant. The mood at the recent Fieldays was fairly upbeat as well.

Bay of Plenty: Following a strong run up over the last year, economic confidence fell in June in the Bay of Plenty. That's despite many regional indicators remaining pretty positive. While rising interest rates may slow activity in the region, the kiwifruit industry is increasingly optimistic, there is strong momentum in retail spending and the unemployment rate in the region fell sharply in the March quarter.

Gisborne/Hawke's Bay: Economic confidence in the Gisborne/Hawke's Bay region fell in the June quarter.

Although many winegrowers remain upbeat about prospects for their industry, confidence may have been tempered by a softer housing market, rising interest rates and slowing employment growth. The forestry industry also has a sizable presence in the region and the recent fall in log prices may also have weighed on confidence.

Taranaki/Manawatu-Whanganui: Economic confidence moderated for a second consecutive quarter in the Taranaki/Manawatu-Wanganui region. Weaker dairy prices are likely to have been one factor behind the most recent move. In Taranaki, turnover in the housing market has dropped fairly sharply although prices have remained buoyant, in contrast to Whanganui where house prices remain well below their 2007 peak.

Wellington: The sharp jump in confidence in Wellington in the June quarter bucked the broad trends we saw elsewhere in the country. After lagging the national average for over a year, economic confidence in Wellington has improved to above average. That's consistent with an improvement in other recent economic indicators for the region – employment rose strongly over the March quarter, and over the last year passenger and commercial car registrations are up strongly, while residential building activity has also increased.

Nelson/Marlborough/West Coast: After steadily improving over the last eighteen months, economic confidence fell in the Nelson/Marlborough/West Coast region in June. There has been little jobs growth of late, and indicators of residential building activity have broadly trended sideways. However there are also some positive signs in the region, the unemployment rate remains one of the lowest in the country, and the mood in the horticulture and viticulture industries remains fairly buoyant.

Canterbury: Economic confidence fell in the June quarter. Cantabrians are still more optimistic about prospects for their local region than any other area in New Zealand, but the gap between second-equal Auckland and Waikato and first-placed Canterbury narrowed sharply this quarter. While the rebuild continues to dominate activity in the region, the dual headwinds of rising interest rates and lower dairy prices may be weighing on confidence.

Otago: Economic confidence fell in June, unwinding the surprising lift we saw in the region three months earlier. While optimists continue to outnumber pessimists, the region is now the least confident about local prospects in the country. That's a bit surprising given some positive local developments recently. Retail spending has picked up a bit, residential construction activity continues to grow and the housing market has held up better in the region than some other parts of the country.

Southland: Economic confidence fell noticeably in Southland in June with prospects of lower dairy prices likely weighing on the minds of many in the region. Confidence is now at its lowest level since this time last year.

Consumer confidence: regional breakdown

Consumer confidence by region

Region	Consumer confidence index		
	Mar-14	Jun-14	Change
Northland	123.4	115.8	-7.5
Auckland	126.5	128.3	1.9
Waikato	124.3	117.6	-6.7
Bay of Plenty	111.0	112.5	1.5
Gisborne/Hawke's Bay	116.2	123.8	7.6
Taranaki/Manawatu-Whanganui	115.1	115.8	0.6
Wellington	116.8	118.8	2.0
Nelson/Marlborough/West Coast	120.0	118.3	-1.8
Canterbury	125.2	121.9	-3.3
Otago	115.7	110.4	-5.3
Southland	122.0	114.2	-7.8
Nationwide	121.7	121.2	-0.5

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, the Consumer Confidence 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.

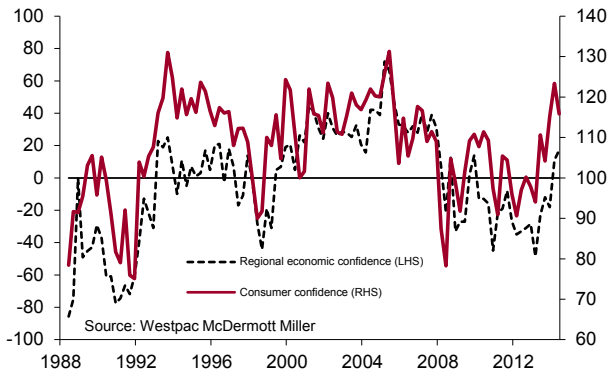
Optimists outnumbered pessimists in all regions once again in the June quarter. In terms of changes, however, it was a mixed bag. Confidence rose modestly in five regions, with the biggest lift in Gisborne/Hawke's Bay, while it fell in the remaining six, including all four South Island regions.

In a majority of regions, people were more optimistic for their own financial situation (the exceptions were Northland, the Waikato, Nelson/Marlborough/West Coast and Southland), but were a bit more cautious about the outlook for the New Zealand economy in general (except in Wellington and Gisborne/Hawke's Bay). Surprisingly in view of rising interest rates, in four regions (including Auckland) more consumers felt now was a good time to buy a major household item than three months ago. It will be interesting to see if this persists as interest rates continue to rise.

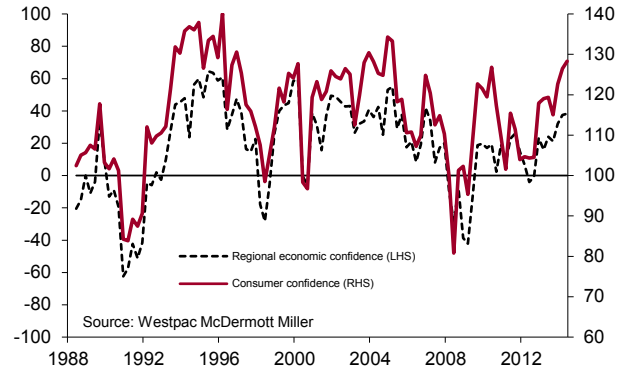
Anne Boniface

Senior Economist

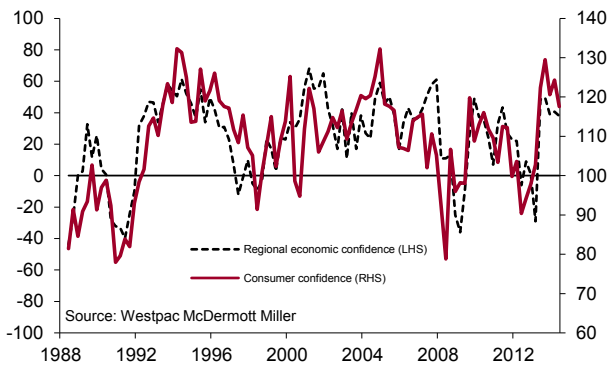
Northland



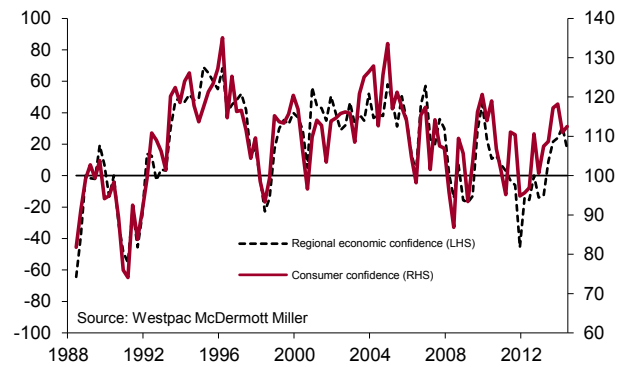
Auckland



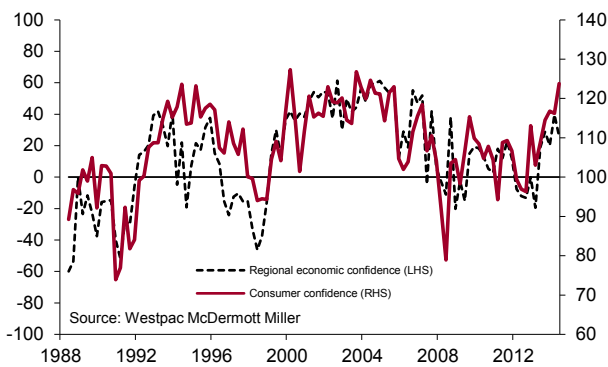
Waikato



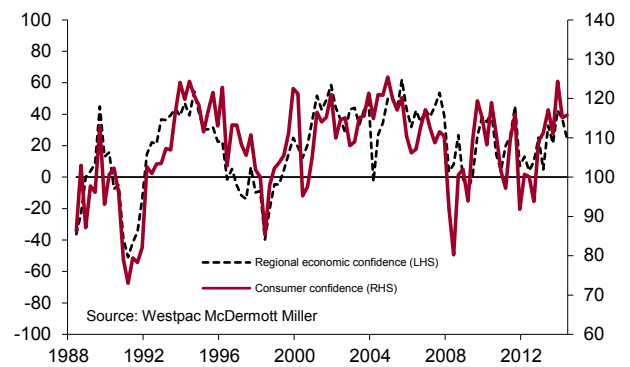
Bay of Plenty



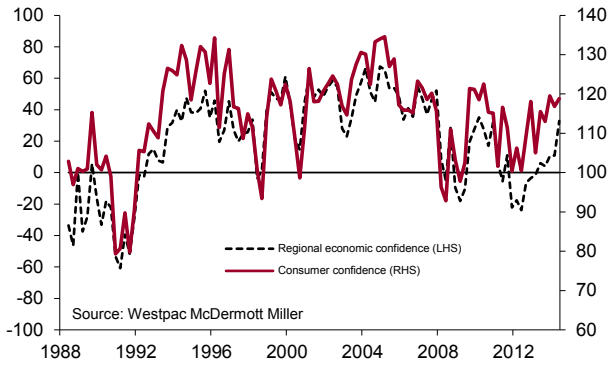
Gisborne/Hawke's Bay



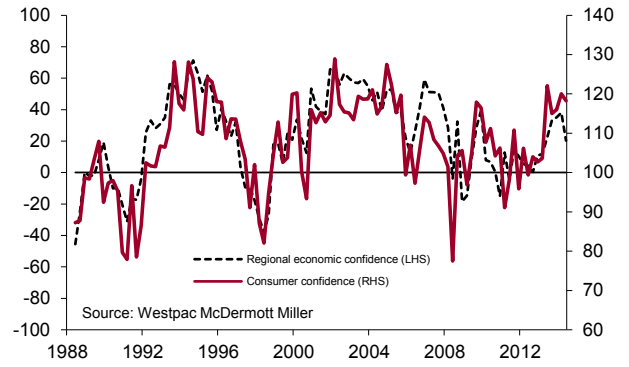
Taranaki/Manawatu-Whanganui



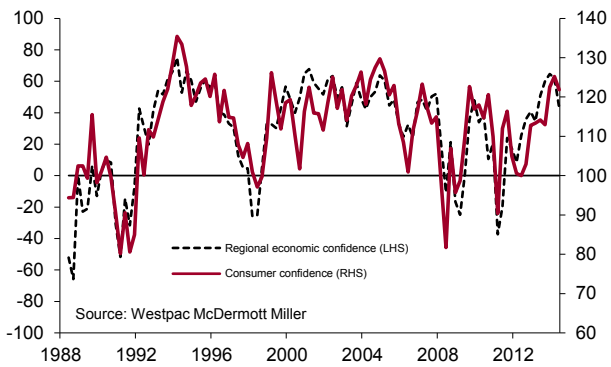
Wellington



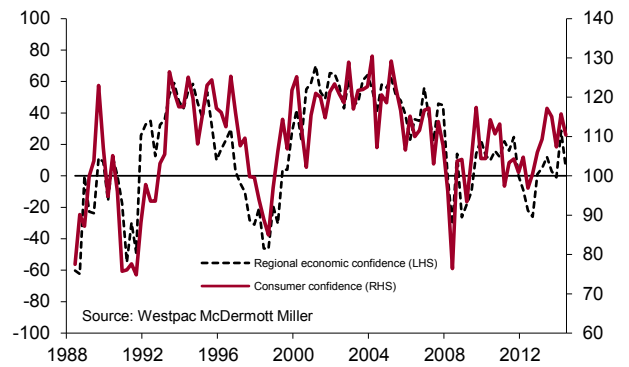
Nelson/Marlborough/West Coast



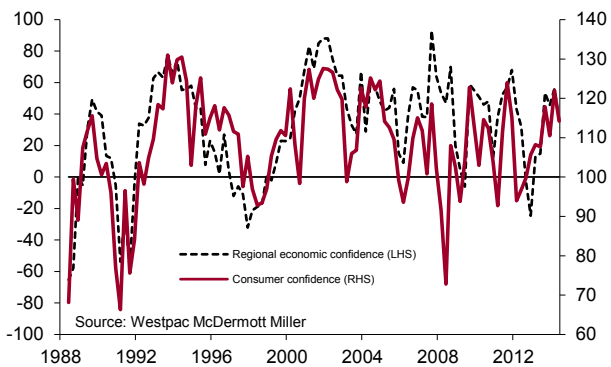
Canterbury



Otago



Southland



Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

Disclaimer

Things you should know: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and does not constitute investment advice. 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. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material and this website may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material and this website does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. The forecasts given in this material and this website are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Transactions involving carbon give rise to substantial risk (including regulatory risk) and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activity.

Disclaimer continued overleaf.

Disclaimer continued

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.