

Milk turns sour

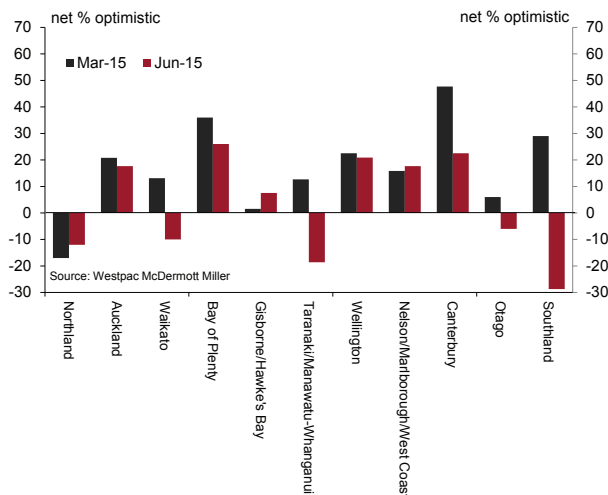
Westpac McDermott Miller Regional Economic Confidence, June quarter 2015

- Consumers' economic confidence fell in the June quarter to its lowest level in more than a year.
- Economic confidence fell furthest in the most dairying-intensive regions, reflecting the further decline in milk prices.
- Canterbury has lost its spot as the most confident region, as the post-earthquake rebuild becomes less of a driver of growth.

Regional economic confidence*

Region	Regional economic confidence (%)		
	Mar-15	Jun-15	Change
Northland	-17	-12	5
Auckland	21	18	-3
Waikato	13	-10	-23
Bay of Plenty	36	26	-10
Gisborne/Hawke's Bay	2	8	6
Taranaki/Manawatu-Whanganui	13	-19	-31
Wellington	23	21	-2
Nelson/Marlborough/West Coast	16	18	2
Canterbury	48	23	-25
Otago	6	-6	-12
Southland	29	-29	-58
Nationwide	21	10	-11

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 2-13 June, with a total sample size of 1581.

Regional economic confidence fell sharply in the June quarter, reaching its lowest level since March 2013. A net 10% of New Zealanders are optimistic about their region's economic prospects, compared to a peak of 37% at the start of last year.

The March quarter survey was characterised by relief that the dry summer had proved to be less damaging to the farming sector than initially feared. However, that brief respite has now given way to the reality of a second season of low dairy prices. Fonterra has lowered its farmgate milk price for last season to an eight-year low of \$4.40 per kilo of milksolids, and its opening forecast of \$5.25/kg for this season is also well below the average of recent years.

Not surprisingly, the biggest falls in regional economic confidence were in the most dairying-intensive regions, namely the Waikato, Taranaki, Canterbury and Southland. The main urban areas of Auckland and Wellington saw only a slight drop in economic confidence, while a few of the smaller regions bucked the trend with a modest lift in confidence, which may reflect the stronger performance of other sectors such as viticulture and tourism.

Regional Roundup

Northland: The Northland region was one of the few to see a lift in economic confidence over the quarter, although views remained tilted towards pessimism on balance. The Northland economy has been on an improving trend over the last year, with strong employment growth, rising house sales and a lift in tourist spending. But key industries such as forestry and dairying are facing challenging conditions in international markets.

Auckland: Economic confidence in the Auckland region fell slightly again in the June quarter, and is now at its long-run average of +18%. The regional economy appears to be in good form at the moment, with strong growth in employment and retail spending, and new home construction running at a ten-year high. But as we've observed in recent surveys, the rapid rise in house prices seems to be creating at least as much angst as joy among Aucklanders. And we don't detect much confidence that the recent tax changes and lending restrictions aimed at property investors, which were announced shortly before this survey, will do much to rebalance the housing market.

Waikato: It's no surprise that economic confidence in the nation's largest dairying region has fallen sharply in the last three months. That said, the region's economy has had a strong run to date, perhaps helped by a very strong tail end to the last dairying season and the region's proximity to the booming Auckland economy. Retail sales, employment, house sales, construction and tourism have all made solid gains so far this year.

Bay of Plenty: Economic confidence in the Bay of Plenty region edged back in the June quarter, but remained close to its highest levels in five years. The kiwifruit industry has bounced back from the Psa virus, and the harvest is expected to be up significantly this season (though with prices correspondingly lower). So far this year the region has seen strong growth in retail spending, house prices and construction, although the jobs market has been relatively subdued.

Gisborne/Hawke's Bay: Economic confidence rose for a third straight quarter, though it remains down on year-ago levels. The jobs market has shown signs of improvement this year, although the unemployment rate remains one of the highest in the country. The primary industries in these regions have had a mixed run: wine exports are growing, meat prices have been varied, while forestry has been hit by a renewed downturn in international log prices.

Taranaki/Manawatu-Whanganui: Economic confidence in these regions fell sharply to its lowest level since 1998. The Taranaki region in particular has faced a double whammy from international markets: as well as the prospect of a second season of low dairy prices, the plunge in world oil prices has quashed the incentive for oil exploration in the region.

Wellington: Wellingtonians remain fairly optimistic about their region's economic prospects, despite indicators pointing to muted growth at best. The housing market is staging a very modest upturn, but retail spending and employment have been more or less flat over the last year. Despite the sense of fiscal restraint, it's notable that the public sector's contribution to GDP growth has risen over the last year or so.

Nelson/Marlborough/West Coast: Economic confidence rose for a second straight quarter in these regions. Economic activity has been reasonably robust so far this year, with strong growth in retail spending, a fall in unemployment and modest gains in house prices. The relative strength of economic confidence in these regions may also reflect the prominence of primary industries other than dairy – for instance, the dry summer will have been a positive for the wine industry.

Canterbury: Economic confidence fell sharply in Canterbury, which for the first time in three years has lost its spot as the country's most confident region (a title now held by the Bay of Plenty). Low dairy prices and dry conditions are an obvious concern for the region. But the fall in confidence is also a reminder that the post-quake rebuild won't be a driver of growth forever. Not only is the level of rebuild activity nearing its peak, but the nature of the work is evolving and becoming more complex. Those workers and business without the right skill sets will find themselves left out of the construction boom.

Otago: Households in Otago have turned pessimistic again on balance. It's difficult to pin this pessimism to any changes in the region's economic performance in recent months. Retail spending has risen strongly, unemployment is down, and the housing market has experienced a modest rebound since last year's election (more so in Queenstown than in Dunedin).

Southland: The result for Southland was the weakest across all of the main regions, and also the biggest deterioration over the last three months. Indeed, this was the lowest reading for Southland since December 1997. Expectations of a second season of low dairy prices are likely to have taken their toll on confidence in the region.

Consumer confidence: regional breakdown

Consumer confidence by region

Region	Consumer confidence index		
	Mar-15	Jun-15	Change
Northland	118.2	106.8	-11.4
Auckland	119.6	117.3	-2.4
Waikato	111.2	115.6	4.4
Bay of Plenty	121.0	116.3	-4.7
Gisborne/Hawke's Bay	115.8	117.5	1.7
Taranaki/Manawatu-Whanganui	117.8	106.9	-11.0
Wellington	115.9	104.5	-11.4
Nelson/Marlborough/West Coast	105.6	109.8	4.2
Canterbury	121.0	114.7	-6.3
Otago	115.8	108.2	-7.6
Southland	111.1	101.8	-9.3
Nationwide	117.4	113.0	-4.3

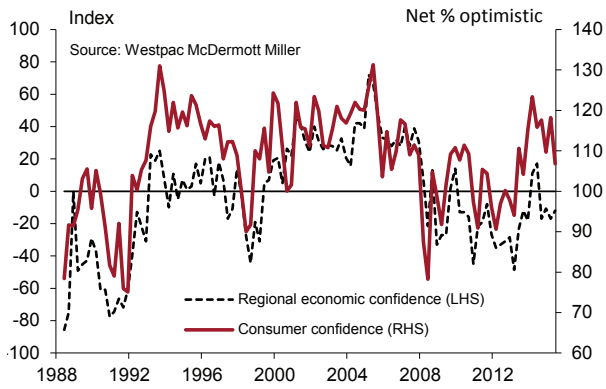
In this bulletin we also report on the regional breakdown of the Westpac McDermott Miller Consumer Confidence Index. Separately from the Regional Economic Confidence Survey, the Consumer Confidence Index summarises responses to questions about households' own financial situation, their expectations for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

Consumer confidence fell in eight out of eleven regions in the June quarter. There was one universal theme across the regions: a sharp drop in expectations for the New Zealand economy over the year ahead. That most likely reflects concerns about weak dairy prices, and a growing weight of opinion that the Reserve Bank would need to lower interest rates.

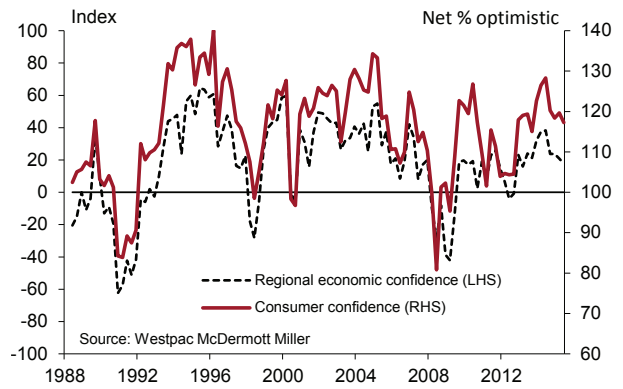
Responses to other questions were varied, however, with no easy rural/urban split that could be attributed to the dairying outlook. There were also some significant divergences from the regional confidence results. For instance, the Waikato region saw the biggest lift in consumer confidence, despite the expected hit to the region from low dairy prices. Meanwhile, Wellingtonians were deeply pessimistic about the wider economy's prospects over coming years, a view that didn't extend to their own circumstances.

Michael Gordon
Senior Economist

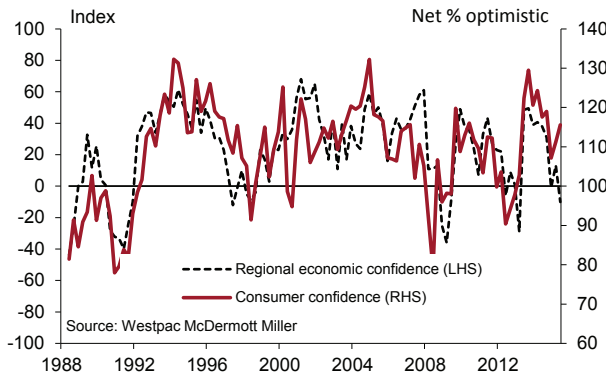
Northland



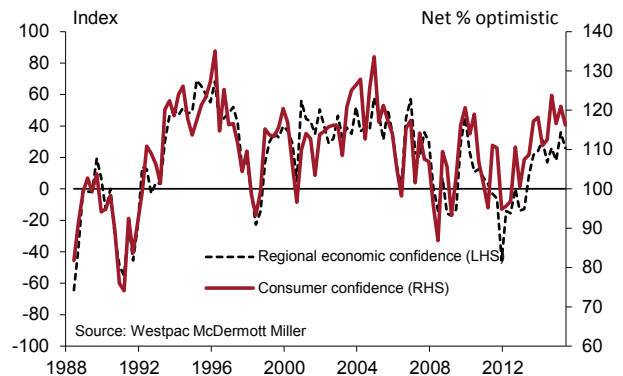
Auckland



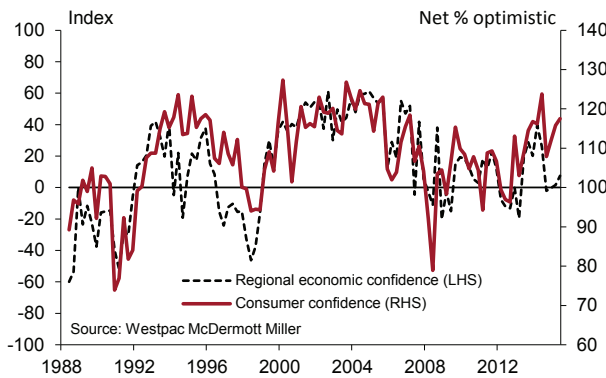
Waikato



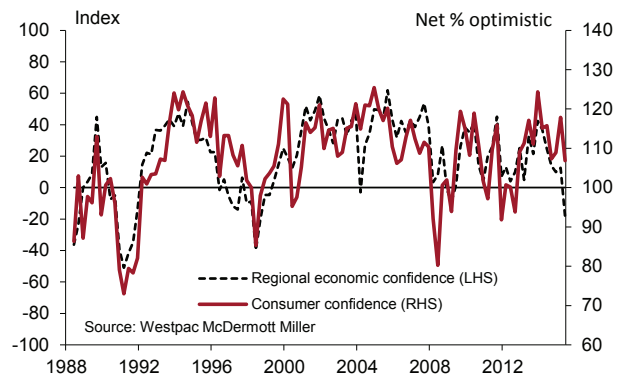
Bay of Plenty



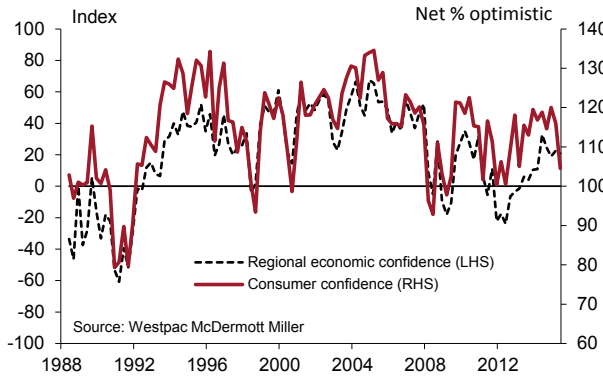
Gisborne/Hawke's Bay



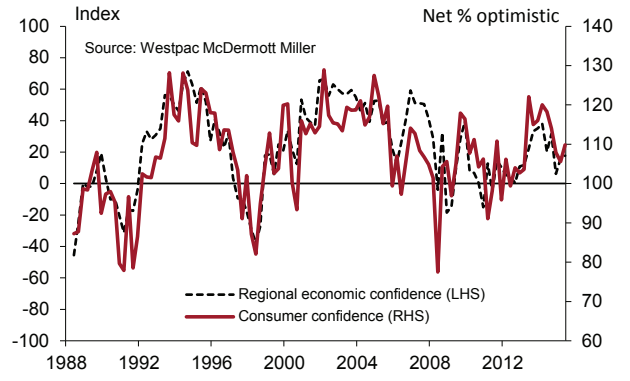
Taranaki/Manawatu-Whanganui



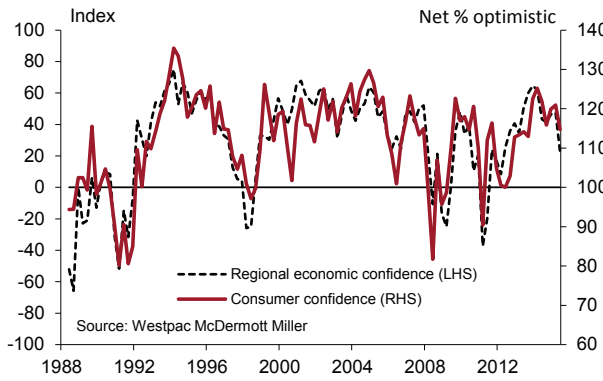
Wellington



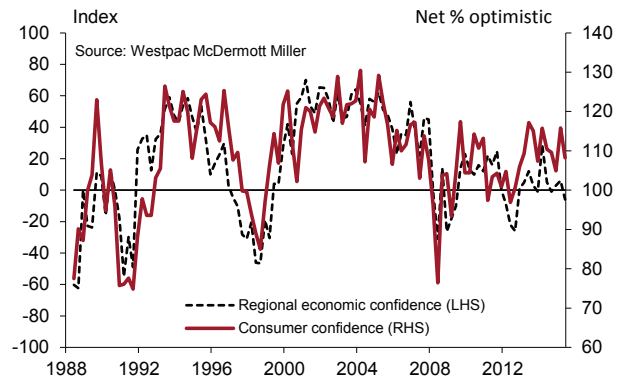
Nelson/Marlborough/West Coast



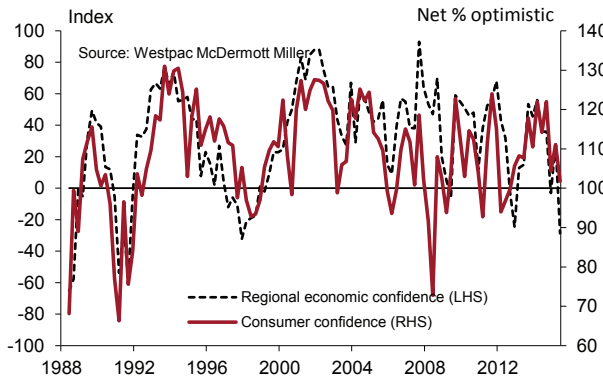
Canterbury



Otago



Southland



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